BOOK-KEEPING FOR RETAIL CLASSES

AN ILLUSTRATED TWO-SESSION COURSE IN THE MODERN PRACTICE OF RETAIL BOOK-KEEPING ON DOUBLE-ENTRY PRINCIPLES

BY

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F.L.A.A

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PREFACE

RETAIL and Commercial Book-keeping, although identical in origin, are yet dissimilar in methods of application, and it is the purpose of this textbook to co-ordinate modern practice and theory in the retail trade; to illustrate the various controls inherent in the double-entry system of book-keeping, and which, frequently exercised, provide the surest means of accurate accounting.

The book has been designed for continuation class work, and is arranged for two sessions, with each chapter forming a complete lesson's work, and sufficient chapters in each course for the average available lecturing nights. The first portion is in very full detail as it is intended for those with no previous knowledge of the subject, and for this reason the discussion of the principles of double-entry has been delayed until a working knowledge of the books has been obtained.

The plan adopted is the outcome of a lectureship in the subject held for many years, and of considerable accounting experience in retailing and industry. The scheme of work will be found to be sufficient for the ordinary requirements of the examinations of the Institute of Certificated Grocers, the Scottish Federation of Meat Traders' Associations, Hardware and Drapery Classes, and the book will also be very suitable for Day Commercial Classes and those intending to sit the examinations of the Glasgow and West of Scotland Commercial College in Retail Book-keeping.

Indebtedness is acknowledged to the secretaries of the various societies for permission to reproduce examination exercises, and to the Edinburgh Drawing Office for the drawings.

J. M. A.

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INSET

THREE-COLUMN CASH BOOK . . . *facing* 4

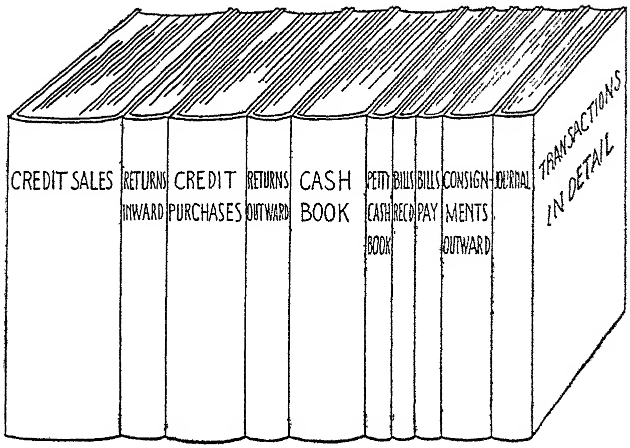
ABBREVIATIONS

A/c, a/c	Account
A/C	Account current
A/S	Account Sales
@	At
B/d, b/d	Brought down
B/E	Bill of Exchange
B/f, b/f	Brought forward
B.P.	Bills Payable
B.R.	Bills Receivable
C/d, c/d	Carried down
C/f, c/f	Carried forward
C/N	Credit Note
Co., Coy.	Company
Cr.	Credit or Creditor
Cum div.	Inclusive of next dividend
Deb.	Debenture
Dept.	Department
Dis. Disc.	Discount
Div.	Dividend
D.N.	Debit Note
Dr.	Debit or Debtor
D/s.	Days after sight
E.E.	Errors excepted
E. & O.E.	Errors and omissions excepted
Ex div.	Exclusive of next dividend
F.a.s., f.a.s.	Free at ship
F.o.b., f.o.b.	Free on board
F.o.r., f.o.r.	Free on rail
Fol.	Folio

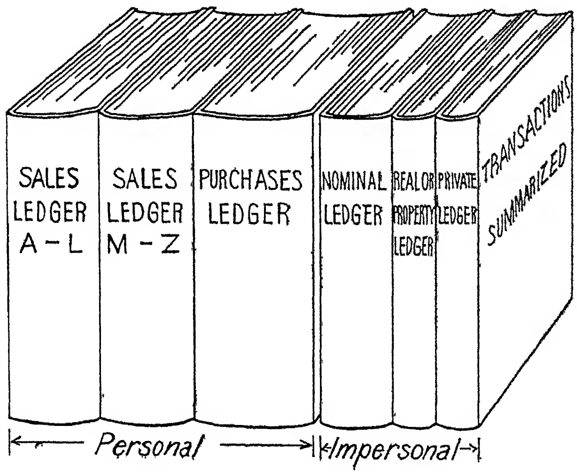
I O U	I owe you
M., m.	Thousand
M/d, m/d	Months after date
Mos.	Months
M/s, m/s	Months after sight
Ms., ms.	Manuscript
N.B.	Note this
N/e.	No effects at Bank
Nom.	Nominal
N.P.	Notary Public
N/S.	Not sufficient funds
O/a, o/a	On account
O/c., o/c.	Overcharge
O/d.	On demand; Overdraft
O.S., Outs.	Outstanding
%	Per cent
Per pro.	On behalf of
Pm., pm.	Premium
P/N	Promissory Note
P.O.	Postal Order
P.O.O.	Post Office Order
Pro tem.	For the time being
Prox.	Next
P.S., p.s.	Postscript
Quid pro quo	One thing for another
Re, re	In the matter of
Ref., ref.	Reference
Stg.	Sterling
Ult., ultimo	Last
Xd.	Ex dividend

The Financial Books of a Modern Business

Books of Original Entry



Books of Account



BOOK-KEEPING FOR RETAIL CLASSES

PART I (FIRST SESSION)

CHAPTER I

TWO-COLUMN AND THREE-COLUMN CASH BOOKS

If we regard *Science* as knowledge arranged under general truths and principles, and *Art* as practical skill guided by rules, book-keeping would be rightly defined as the science and art of recording business transactions, in terms of money, by means of accounts.

These accounts are systematized in Ledgers, but as they contain the transactions in only a summary form, it is necessary to supplement the Ledgers with Subsidiary Books (often referred to as Journals) which record the full detail. The Ledgers are called the "Books of Account," and the Journals the "Books of Original Entry." Together they form the "Financial Books" of the Business House. The Ledgers are common to every business, but the "Books of Original Entry" differ in number and style according to the class of business done. For example, a business which has no dealings in Bills of Exchange or Consignments has no need of books to record such transactions. The sizes and styles of the "Books of Original Entry" are dependent on the type of business and the volume of transactions, and provided that they gather the details in an accurate and systematic manner and translate them into money values they will suit the financial requirements. The details in the books of original entry are keyed to their respective summaries in the Ledger by a system of folioing. When making each summary entry in the book of account—known as posting the Ledger—the page number of the detail book is entered in the Ledger on the same line as the entry, in a column provided for the purpose. At this time also the Ledger page number is given in the folio column, or space provided in the book of original entry. The advantages are two-fold: First, the Ledger folios against the entries in the subsidiary books indicate that the items have been posted to the Ledger, and second, the folio numbers in the Ledger provide a means of ready access to the details, should this be necessary at any time. A first essential then is for each Ledger Account to have a reference number and for the pages in each Journal subsidiary to be consecutively numbered. The Cash

Book requires the use of two pages, and the two opposite should be given the same number and worked together as one page.

In strict theory there should be Journals for the receipt and payment of cash, with subsequent summary transfers to accounts in the Ledger, but the practice has grown up of avoiding the cash entries which should be made in the *Real Ledger* and ruling the Cash Book so that it acts in the dual capacity of a *Real Ledger* Account, and as a subsidiary Journal for recording cash receipts and payments.

There are two kinds of Cash Book rulings in common use—

First, there is the *two-column Cash Book*, which is used where a separate Bank Account is kept in the Real Ledger.

Second, there is the *three-column Cash Book*, which combines Cash and Bank Accounts.

The left-hand side of both books is called the Debit (Dr.), and the right-hand side the Credit (Cr.) Receipts are entered on the debit side and payments on the credit side. The two-column Cash Book is very simple to write up. Receipts will take chiefly the form of ready money counter sales (termed Cash Sales), moneys from customers who have been sold goods on credit (termed Trade Debtors), and cash withdrawn from the bank. *The exact amount of cash received* must be entered into the Cash Column on the debit side. Sometimes the Trade Debtors are allowed a small cash discount for prompt payment, and when taken advantage of, the amounts are entered alongside as "Discounts allowed."

Similarly when paying accounts for goods bought on credit (Trade Creditors) advantage may be taken of cash discounts, and these are entered on the credit side in the "Discounts received" column. *Only the actual cash paid is entered in the Cash column.* Other entries on the credit side will be for surplus cash banked, ready money purchases (termed Cash Purchases), and the usual establishment charges· Rent, Rates, Wages, Commission, Lighting, Heating, Telephone, Insurance, Postages, Carriage, Stationery, Advertising, and Sundry Expenses

The withdrawal of cash by the partners is entered under the title of *Private Drawings* on the *Credit* side. On the other hand, should cash be brought in by the proprietors, the entry should be on the debit side and described as *Capital.*

The balance of cash in hand may be ascertained at any time by subtracting the total of credit entries from the total of the debit ones. The Cash Account should be balanced frequently by entering this balance in hand, as a last item on the credit side, and bringing it down to a new account on the debit side. The example on page 3 will make the whole account clear.

It will be noticed that the Discount columns are not balanced, but merely totalled independently on both sides, and this applies to the three-column Cash Book as well.

Dr. TWO-COLUMN CASH BOOK *Cr.*

Date	Receipts	Led Folio	Discounts Allowed £	s	d	Cash £	s	d	Date	Payments	Re-ceipt	Led Fol	Discounts Received £	s	d.	Cash £	s	d
Sept. 1	To Balance in Till	b/f				12	16	–	Sept 1	By Cash Purchases						3	10	–
,, 1	,, A Adam					5	–	–	,, 1	,, Acmee Ltd				4	–	3	16	–
,, 1	,, B. Ash & Son			4	–	8	1	–	,, 1	,, Wages						14	–	–
,, 1	,, C Allan & Coy			6	5	12	14	–	,, 1	,, Postages							6	6
,, 1	,, Cash Sales					31	12	6	,, 1	,, Stationery							16	–
									,, 1	,, Advertising						2	2	–
									,, 1	,, Bank Deposited						25	15	–
									,, 1	,, Balance in Till	c/d					19	18	–
		£		10	5	70	3	6				£		4	–	70	3	6
Sept 2	To Balance in Till	b/d				19	18	–										

In the majority of business houses it is convenient to include the Bank Account in the Cash Book, and the three-column Cash Book is then used: the extra column on both sides being used for bank receipts (Dr.) and bank payments (Cr.). Payments out of the bank are made by cheques and the entry of payments made by cheque should be on the credit side in the bank column. If it is the rule for all cheques to be banked the same day as they are received, instead of going into the cash till (and this should be assumed for all exercise work), the entry is on the debit side in the bank column.

Bank lodgements of surplus cash require two entries, one on both sides of the Cash Book. Money withdrawn from the bank to augment the office cash also requires two entries. To avoid confusion the following rules should be studied very closely.

1. *Bank Lodgements of Surplus Cash.*

(*a*) On the credit side of the Cash Book *in the Cash column* enter the lodgement—By bank £.

(*b*) On the debit side *in the Bank column* enter the same amount —To cash £.

2. *Bank Withdrawals to Augment Office Cash.*

(*a*) On the credit side of the Cash Book *in the Bank column* enter the amount withdrawn—By cash £.

(*b*) On the debit side *in the Cash column* enter the same amount —To bank £.

These entries do not require to be posted to the ledger, and it is usual to insert a tick in the folio column, or to write in the word "contra." The bank column must be balanced in the same way as the cash column and the balance brought down, but unlike the cash column, which must always have a debit balance, it may be necessary to bring down a credit balance, which would indicate an overdraft at the bank, i.e. that more money had been withdrawn than had been placed on deposit.

In addition to the payments we have mentioned there are occasionally payments made for goods or property which are not for re-sale but for use. These must be carefully distinguished and entered into the Cash Book under appropriate headings. For instance, counters, shelving, etc., would be entered under the title of "Fixtures and Fittings," whilst coffee mills, sausage-making machines, etc., would be described as "Plant and Machinery." Motor vans and buildings are also instances of purchases which may be made and which must be kept separate, as special accounts are raised for them in the real Ledger.

A complete example is now given of a three-column Cash Book, and this should be studied very carefully. Receipts received for all payments should be numbered consecutively and the number

DEBIT | CREDIT

DATE		:NTS	FOLIO	REC LIST No	DISCOUNTS RECEIVED			CASH PAYMENTS			BANK WITHDRAWN		
Sept	1	Tr uk	✓					400	0	0			
"	"	Purchases						18	0	0			
"	"	[illegible]						6	0	0			
"	"	[illegible]						15	0	0			
"	"	[illegible] (Lighting a/c)						2	0	0			
"	"	[illegible] light						13	0	0			
"	2	[illegible] a/c						8	0	0			
"	3	[illegible] a/c						2	0	0			
"	"	[illegible] a/c						3	0	0			
"	4	[illegible] a/c						1	0	0			
"	5	[illegible]tising a/c						9	0	0			
"	6	[illegible]									22	0	0
"	"	Drawings						10	0	0			
"	"	[illegible]kman			1	16	0				36	0	0
		Boots				4	0	4	0	0			
		Dick						3	0	0			
		[illegible]	✓					95	0	0			
		(Plant a/c) [illegible] Mill									28	0	0
		[illegible]or Van									140	0	0
		(Fittings etc. a/c) [illegible]writer									16	0	0
		Balance	c/d					£48	0	0	385		
					£2	0	0	634	0	0	627	0	0
		[illegible]											

(C.93)

inserted against the entry on the credit side of the Cash Book. The example records the following entries—

Sept 1. Balance in till £22 and in bank £100
Brought in a further £500 to the business. Banked £400
Ready money counter sales £14.
L Liveson paid cheque £12 in full payment of £12 6s account.
M Donald paid £6 cash and was allowed 3s. discount (£6 3s.)
Cash purchases £18
Paid in cash Rent £6, Wages £15, Commission £2, Electric Account £13.
,, 2 Cash sales £16.
Paid in cash, Insurance £8, Postages £2 and Carriage £3
,, 3. Counter sales £18.
Paid cash for Stationery £1 and Advertising £9. Withdrew from bank £22.
,, 4. Ready money sales £7.
Private drawings for self £10.
,, 5. S. Stewart pays £20 cheque in payment of £20 10s. Account.
Paid A. Aikman cheque £36. Discount £1 16s.
Paid B. Boots cash £4. Discount 4s.
,, 6 Paid D Dick £3. Net Account.
Cash sales £28.
Received from L. Maneely £4. Allowed discount 2s (£4 2s.).
Banked £95.
Paid cheques as follows: New Coffee Mill £28, Motor Van £140, and new Typewriter £16

EXERCISES ON CHAPTER I

Compile three-column Cash Books and balance these on the last day of entry. Cheques received to be entered into the bank column, assuming they are banked on the day of receipt.

			£
1			
Sept	1.	Commenced business and brought in cash	1500
		Banked in the firm's name	1400
,,	2.	Bought goods for cash (cash purchases)	60
,,	3	Bought goods for cheque ,, ,,	250
		Purchased Shop Fittings for cheque	100
,,	4.	Cash Sales	22
,,	5.	Rent for three months, cheque	20
,,	6.	Paid Wages	12
,,	8.	Paid Insurance	10
,,	9.	Paid Postages	2
,,	10.	Cash Sales	65
,,	11.	Paid Carriage	1
,,	12.	Paid Advertising	20
,,	13.	Purchased second-hand Motor Van, cheque	50
,,	15.	A. Aikman paid his account of £32 16s. by cheque for £32.	
,,	16.	Paid L Liveson cheque, £14, discount 14s.	
,,	17.	Paid M. Donald cheque to account	40
,,	18.	Cash Sales	90
,,	30.	Cash Sales	93
		Petty Expenses	6
		Banked	250

(*Ans.* Cash Bal. £9. Bank Bal. £1208. Total Discount Allowed 16s. Discount Received 14s.)

2.

			£
Oct.	1.	Overdraft at Bank (Bring forward as a credit balance, bank column)	130
		Cash Balance, *Dr.*	63
		Further capital introduced and banked	200
,,	3	Paid rent by cheque	12
		Received from B Brown £14 in cash Discount 7s	
,,	4	Paid Wages	16
		Received Commission	3
,,	5	Received cheque from L Reid £6 Discount 10s	
,,	6	Paid Gas Account	4
		Cash Sales for week	24
,,	8.	Paid Insurance	8
,,	9	Paid Petty Expenses	4
,,	10	Paid Carriage	2
,,	11	Paid Advertising	11
		Received from R Dobbie cheque to account	25
,,	12.	Private Drawings	14
		Cash Sales	28
,,	14	Bought New Fixtures for Shop by cheque	20
,,	15	Purchased Motor Van and gave cheque	140
,,	19	Cash Sales	26
,,	26	Cash Sales	21
,,	27	Paid to L Hanover cash to account	25
,,	28	Sent cheque to C. Castle £40 to square account for £41	
		Paid M George cash £6. Discount 3s	
		Withdrew from bank	15

(*Ans.* Cash Bal £104 Bank Bal £126. *Cr.* Total Discount Allowed 17s. Total Discount Received £1 3s)

3

			£	s	d
Nov.	1	Cash Balance, *Dr.*	71	4	9
		Bank Balance, *Dr.*	1461	4	10
		Cash Sales	7	10	–
		Received Mitchell's cheque £42. Discount £1			
,,	2.	Banked	50	–	–
		Cash Sales	35	2	5
		Carriage	2	12	4
		Petty Expenses	3	8	2
		Received Mortimer's cheque £2 . Discount 1s			
		Paid Stationery		15	–
		Paid Telephone Account	4	1	6
		Motor Van running expenses	11	12	3
,,	3.	Cash Sales	19		
		Cash Purchases		14	9
		Received from Nisbet & Co. Cash to account	12		
		Paid Wages	18	6	–
		Withdrew from Bank to augment Cash	25	–	–
		Paid Petty Expenses	3	1	3
		Paid Carriage	1	3	–
,,	4.	Paid Advertising by cheque	4	10	–
		Paid C. Price cash £4 10s Discount 2s. 6d.			
		Withdrew cash for self	10	–	–
		Bought second-hand Motor for cheque	75	–	–
		Paid Poole & Co. cheque to account	40	–	–
		Cash Sales	33	2	4
,,	5.	Paid Commission	1	10	–

			£	s	d.
3					
Nov	5.	Paid by cheque, Proudfoot & Co. £13 Discount 6s 6d			
		Paid Insurance by cheque	14	–	–
		Cash Sales	12	14	6
,,	6.	Purchased New Counter for Cash	9	–	–
		Cash Sales	43	1	3
		Paid Postages for week		13	5
		Received Cheque from T. Tomlinson	13	5	6
		Deposited cash in bank	130	–	–

(*Ans* Cash Bal £7 7s 7d Bank Bal £1527 0s 4d. Discount Allowed £1 1s Discount received 9s)

QUESTIONS

1 Define Book-keeping
2 What are the "financial books" of a business?
3. Explain the system of folioing
4. Is the Cash Book an account, and if so, to what Ledger does it belong?
5 Why is it that there must always be a debit balance of office cash? Would the same rule apply to the bank balance? If not, what is the term used when there is a credit bank balance?
6. Some retailers include bank cheques received with their cash takings, others keep them separate and bank them on the day of receipt. Explain the different procedure in writing up the Cash Book

CHAPTER II

PETTY CASH CONTROL

An abridgment of the entries in the Cash Book may be desirable and can readily be achieved by introducing a subsidiary book for postages and the trifling sums incidental to the carrying on of a business; also in the case of certain branches such "petty cash floats" as they are called are very necessary.

Most firms use the Imprest Petty Cash system. The petty cashier is given a certain sum of money, and at the end of the period (week or month) hands over a summary of the disbursements and receives cash for the sums expended, thus bringing the petty cash balance back to its original amount.

For example, assuming the imprest amount to be £5, there will be an entry made in the *main Cash Book*, on the day that the sum is handed over, as under—

By Petty Cash	*Cr.*	£5

On the day that payment is made for disbursements there will be summary entries made for the cash paid out, as under—

		£	s	d
By Postages	*Cr.*		6	6
,, Carriages	*Cr.*	1	10	6
,, Car Fares	*Cr.*		6	–
,, Office Expenses	*Cr.*		6	10
,, Shop Cleaning	*Cr*		6	–

The petty cashier records the full details in the Petty Cash Book, which has a debit column for cash received and a credit one for cash expended. Appended to the credit side are a number of analysis columns which are used to group the payments under appropriate headings. An example of a Petty Cash Book is given, and it should be noted that it is balanced in the same way as the main Cash Book, i.e. the balance is entered on the credit side to make both totals agree, and is then brought down on the debit side, as a debit balance.

The illustrated example records the following transactions—

Sept. 1. Petty cashier receives £5

Expenditure during the week—

			s.	d.
Sept.	1.	Postages	1	–
		Car fares to boy messenger	3	–
		Railway charges	2	–
		Matches		4
,,	2.	Shop cleaning charges	6	–
		Postages		10½
		Bank dues	2	6

Dr. Specimen Petty Cash Book *Cr.*

Amount Received £	s.	d	Date	Particulars		Total £	s	d	Voucher Receipt No	Postages £	s	d	Car Fares £	s	d	Carriages £	s	d	Sundries £	s	d	Shop Cleaning £	s	d	Sundry Cash Purchases £	s	d.
5	–	–	Sept. 1	To Cash																							
			,, 1	By Postages			1	–	401		1	–															
			,, 1	,, Cars for Parcels			3	–	402					3	–												
			,, 1	,, Railway Charges			2	–	403								2	–									
			,, 1	,, Matches				4	404												4						
			,, 2	,, Cleaning			6	–	405														6	–			
			,, 2	,, Postages				10½	406			10½															
			,, 2	,, Bank Dues			2	6	407											2	6						
			,, 3	,, Postages			3	6	408		3	6															
			,, 3	,, Small Advertisement			4	–	409											4	–						
			,, 3	,, Railway Charges			9	6	410								9	6									
			,, 5	,, Car Fares			3	–	411					3	–												
			,, 6	,, Postages			1	1½	412		1	1½															
			,, 6	,, Railway Charges			19	–	413								19	–									
						2	15	10			6	6		6	–	1	10	6		6	10		6	–	–	–	–
2	15	10	,, 6	To Cash																							
				By Balance	c/d	5	–	–																			
£7	15	10				£7	15	10																			
5	–	–	,, 8	To Balance	b/d																						

			s.	d.
Sept.	3.	Postages	3	6
		Small Advertisement	4	–
		Railway Charges	9	6
,,	5.	Car Fares	3	–
,,	6.	Postages	1	1½
		Railway Charges	19	–

Note that the particulars column serves both debit and credit entries.

EXERCISES ON CHAPTER II

1.

Oct 1 Petty Cashier receives £5

Disbursements as under during week—

			s.	d
Oct	1	Posted eight letters at 1½d each		
		Car Fares	2	3
		Office Expenses	3	4
		Cleaning Charges	6	–
,,	2.	Posted 5 letters at 1½d. each and 23 Account Statements at ½d each		
		Car Fares	2	1
		Bank Dues	1	6
		Railway Charges	9	–
,,	3.	Posted nine letters at 1½d each		
		Car Fares	1	7
,,	4.	Postages	1	3
		Telegram	1	–
		Dusters		8
,,	5	Postages	3	2
		Railway Charges	8	4
,,	6.	Postages	1	8
		Car Fares	1	9

Record the above transactions in a columnar Petty Cash Book upon the imprest petty cash system and bring down the balance as on the 8th September.

2. *(From the Royal Society of Arts)*

Prepare a columnar Petty Cash Book upon the imprest system, record the undermentioned transactions, and bring down the balance as on the 6th January—

			£	s.	d.
Jan	1.	Received the amount necessary to make up the imprest to £10			
,,	2.	Bought Postage Stamps	1	10	–
		Paid Carriage on Parcel		3	7
,,	3.	Paid Travelling Expenses		11	10
,,	4	Bought Packing Materials	1	3	6
		Bought Stationery		4	8
,,	5.	Paid Wages to odd man		6	–
,,	6	Bought Job Line of Goods for cash from H. Saunders	1	15	–

3. *(From the Royal Society of Arts)*

Rule a columnar Petty Cash Book with the following headings—Postages and Telegrams, Carriage, Office Expenses, Stationery, Travelling, Salaries and Wages, and Sundries. Record the undermentioned transactions in the Petty Cash Book and bring down the balance as on the 6th December, and enter the amount which should be received from the cashier to make up the amount of the "Imprest," viz. £20.

			£	s	d.
Dec.	1.	Received £12 8s. 7d. the amount required to make up the amount of the "Imprest," viz	20	–	–
		Purchased Stamps	1	10	–
		Paid Office Cleaner		5	–
,,	2	Purchased Stationery		12	–
		Paid Telegram to J. Brown		1	8
		Purchased New Office Stool		12	–
,,	3	Paid for Fares to Chiswick		1	–
,,	4	Telephone Account paid	1	18	9
		Paid Carriers Account	1	2	4
		Received from Inland Revenue for Spoiled Stamps	1	8	6
		Paid for Insertion in Directory		5	–
		Paid for Return Fare to St. Albans		3	10
		Purchased Packing Materials	1	19	4
,,	5	Paid Window Cleaner		6	6
		Purchased Pens and Pencils		5	3
,,	6	Paid Wages to two casual men at 5s. per day each for three days	1	10	–
		Paid Salaries to Office Boy and Typist	1	15	–

QUESTIONS

1. What is meant by the "Imprest" System of Petty Cash records?
2. Rule out a columnar Petty Cash Book and describe the method of using it.
3. How are the disbursements of petty cash finally entered into the main Cash Book?

CHAPTER III

CREDIT PURCHASES

In entering the items in the Cash Book it was observed that ready money purchases, whether paid for in cash or by bank cheque, were placed on the credit side of that book. Although most retail shops have a number of cash purchases (grocers, for example, retailing bread, and purchasing supplies daily for cash), the major portion of the stock is purchased on credit.

When goods are purchased on credit the accounts for them are usually due to be paid during the succeeding month, and this is termed monthly account Some firms allow the credit to run for three months, and this is known as quarterly account.

The date of supply is determined by the invoice, which is a letter of advice of the dispatch of goods, with particulars of their price and quantity.

Example of an Invoice

Debtor to

J. KELTON & COY
EDINBURGH

Date of Invoice	Order No 1672	£	s.	d.	Rly. Co. L M S. £	s.	d.
Sep. 1	To 1—Heater No 4	8	–	–			
	,, 2—No 10 Stoves @ £2 ea. . .	4	–	–			
		12	–	–			
	Less 25% . .	3	–	–			
	5% m. a/c . . .				£9	–	–

As a rule invoices state the selling prices and allow the retailer a *margin* in the form of a trade discount. It is important to note that this trade discount is given irrespective of when payment may be made, whereas, it will be remembered, the cash discount entered in the Cash Book is allowed only if payment be made within the stipulated time.

Where there are numerous invoices, it is usual to list them and have them numbered consecutively on receipt. The invoices are

afterwards checked for their extensions and additions, and the consecutive number placed on the duplicate of the order which was issued for their supply (so as to avoid a second invoice being passed for the same goods). The invoices are then issued to the persons who ordered the goods, who, in turn, check them for quantity and quality, and they are then returned to the Purchases Clerk.

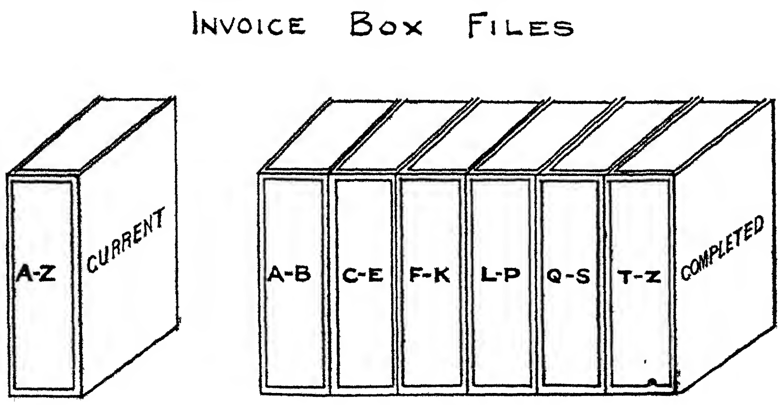
Entry must then be made in one of the books of original entry (in this case, for trade stock, the Credit Purchases Book). Of course, it would be quite an easy matter to copy every invoice into a book, in full detail, and this was actually done at one time. At a later date, the invoices were pasted into a book called a Guard Book. These methods have now given place to the modern *two-file* system, particulars of which are now given.

Incoming invoices for goods for re-sale (called trade stock) are stamped, on receipt, with a rubber stamp and responsible parties initial the invoices as they pass them.

EXAMPLE OF THE RUBBER STAMP

No. . .	
Arith. .	
Qty & Qlty .	
P.B. Fol. .	

EXAMPLE OF TWO-FILE ARRANGEMENT



In due course, the invoices are returned to the office after being initialed and they are then arranged alphabetically in what is called a Current Invoice File. At intervals the invoices are withdrawn from this file, the date, name and amount being entered into a Credit Purchases Book (called variously Invoice Book and Purchases Journal), the folio of this book being stated on the invoice (see rubber stamp illustration). After being so posted the invoices are placed alphabetically into files, which carry a year's supply and are known as "completed files."

By this ingenious arrangement a detailed Credit Purchases Book, or a Guard Book, becomes unnecessary and the Purchases Book may be written up very quickly, for no details other than the date of the invoice, the name of the supplier and the net amount due, require entry.

EXAMPLE OF A CREDIT PURCHASES BOOK—MODERN

Page 34.

Date	Particulars	Led Fol	Net Invoice Value £	s	d.
Oct 1	A Aikman	A 1	1	13	–
,, 2	L Liveson	L 3	2	4	–
,, 3	C. Canns Ltd. . .	C 8	12	16	–
,, 8	D. Dons & Coy . . .	D 4	16	5	–
,, 14	M Dickson	D 3	11	2	6
,, 16	S Stevenson & Coy.	S 5	18	1	3
,, 22	W. Walker Ltd.	W 3	1	6	–
,, 30	T. Timms	T 2	4	3	1
	TOTAL		£67	10	10

In the offices of factories it is usual to enter all invoices received into the Purchases Book, and to have the invoices analysed according to whether they are for trade stock, expenses of various kinds, or for goods which are not for sale, e.g. Motor Vans, Buildings, etc. This is unnecessary in most retail establishments, where it is usual to keep the Purchases Book entirely for trade stock invoice values. The others are retained in a separate file until they are paid, when they are entered direct into the Cash Book under the title of the expense or account, such as e.g. a payment to the landlord for rent would be entered in the Cash Book as rent paid. The invoices for expense items are usually filed with the receipts.

EXERCISES ON CHAPTER III

1

Prepare a modern Purchases Day Book from the undermentioned details. The amounts given are after the deduction of trade discount, if any, shown on the invoices.

			£	s.	d.
Oct.	1.	Bought from A Brown goods value	36	1	3
,,	2.	Purchased goods on credit from A. Aikman	12	2	6
,,	3	L Liveson sold me goods on credit value	11	11	3
,,	4	C Canns Ltd. invoiced goods value	10	–	–
,,	5	D Dons & Son sent goods on credit value	14	1	3
,,	6	Credit purchase from M. Dickson	1	1	2
,,	8.	Further purchases from A Brown	22	–	–
,,	9.	S Stevenson & Co sells goods value, to me	18	14	5
,,	10	W. Walker Ltd. sell to me on 3 months' credit	21	6	–
,,	11	T Timms sells me goods on 1 month's credit	20	–	–
,,	12.	Bought goods on credit from A Brown	21	18	9
,,	14.	D. Tom and Sons sell me on credit	2	1	9
,,	19.	W Hunter & Co. sell goods on credit value	16	2	8
,,	26.	C. Canns Ltd sell further goods to me on credit	23	10	–

2.

The following are summarized details of Invoices received Prepare a modern Purchases Day Book, excluding those which represent purchases of goods other than trade stock, and those which are recorded elsewhere.

Nov. 1 Bought stock on credit £21, less 25% trade discount and 5% for cash monthly, from A. Brown

,, 2. Purchased stock on credit from A. Aikman £1 8s. 9d. less 12½% trade discount, net monthly a/c

,, 3. Purchased stock from C. Canns £53 net.

,, 4. Bought new Motor Van for £140.
Received invoice for Gas Account, £4 2s.

,, 5. Cash Purchases £12 13s

,, 6 Stock Credit Purchases from W. Walker Ltd £19 1s 5d. less 15% trade discount, net quarterly account

,, 8. Bought from T. Timms on credit £34 16s. 7d. less 2½% monthly account.

QUESTIONS

1. What is meant by the two-file system of recording credit purchases and what are the advantages?

2. Explain the meaning of the terms "Monthly A/c" and "Quarterly A/c."

3. Rule out a specimen invoice, and state the process through which it should go when received by the consignee of the goods.

4. What is a Guard Book?

5. Should cash purchases be entered in the Purchases Book?

6. Invoices are sometimes received for expenses, and for goods which are not for re-sale. What should be done with them?

CHAPTER IV

CREDIT SALES

READY money for counter sales is usually put together in the Cash Register, and a single entry is made each day in the Cash Book for the total amount, under the title of Cash Sales.

It is sometimes necessary, however, to give time for payment, the period varying from one week to three months as a rule, and sales made under this system are termed credit sales, and are not included with the cash sales in the Cash Book.

In order that customers may have a record of the price of goods purchased, outgoing invoices (see description and illustration of incoming invoices in the previous chapter) are sent with or at the same time as goods, and exact copies of these are retained in the office.

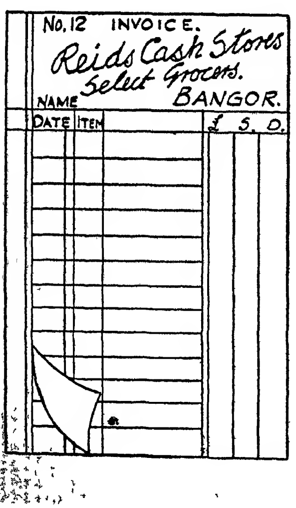
At one time the copying of these was laborious, but the introduction of the typewriter led to billing machines which could copy a number of invoices on one page, the pages being subsequently bound.

Two systems are in vogue to-day—

First, where invoices are typed, single carbon duplicates are retained and these are numbered numerically and bound periodically in book form, or billing machines are used.

Second, where invoices are handwritten in what are called Counter Books, the top copies are sent to the customers with the goods, and the duplicates are filed alphabetically until payment is made. The totals of the invoices are entered in a book or on loose recapitulation sheets. These are added at periodic intervals, so that the grand total of credit sales may be known. (See also Chapter XVII.)

The modern systems are not suitable for exercise work, and it will therefore be necessary to adopt the original method of copying credit sales in full detail.



EXAMPLE OF A MODERN DUPLICATE COUNTER BOOK TO RECORD CREDIT SALES

Example—(to be followed in all exercise work).

SALES DAY BOOK Page 16

Date	Particulars	Led Fol.	£	s	d	£	s	d.
Oct. 1	To John Wright							
	2 Iron Grates @ £2 ea . .		4	–	–			
	1 Register with Tiles . .		6	–	–			
						10	–	–
,, 2	To A. Green							
	1 Wire Basket . . .			16	–			
	1 Gas Cooker . .		8	15	–			
						9	11	–
,, 3	To G. Glass							
	4 Balaster Heads @ 6s. . .		1	4	–			
						1	4	–
,, 4	To G Reid							
	10 Twist Drills @ 5d . .			4	2			
	1 Hammer			2	–			
							6	2
,, 5	To L Hay							
	5 Iron Gratings . .		2	10	–			
	Less 10% Discount . .			5	–			
			2	5	–			
	1 Box . .			4	–			
						2	9	–
	TOTAL . .					£23	10	2

Special Note. In some firms the Counter Books are used to give receipts to ready money customers, as well as for recording credit sales. Where this is the practice only the duplicates referring to Credit Sales are posted to the recapitulation sheets and the ledger.

EXERCISES ON CHAPTER IV

1.

Prepare a fully detailed Sales Day Book for the following credit sales of an Ironmonger.

		£	s	d.
Nov. 1.	John Wight			
	1 Interior Sham Stove black with bronze canopy . .	3	14	–
	1 Barless Fitment		10	6
,, 2.	A. Green.			
	1 Peerless Stove 16″	2	2	–
	4 Wall Brackets		8	–

Nov 3 G Glass
 1 Oil Stove, second hand, 45s less 50% discount
,, 4 C Reid
 4 Gas Radiators, No 122 @ £2 2s each.
 2 Gas Fires @ 36s each
,, 5 L Hay
 2 Cereal Bins @ £2 16s each
,, 6 G Tonge (Ironmonger)
 1 Astra Stove @ 16s less 10% inter-trade discount.
,, 7 S Walkington
 1 Step-ladder @ 14s
 1 Mangle @ £12 10s

2 (Revision)

Compile three-column Cash Book, Purchases Day Book, and Sales Day Book from the under-noted particulars

			£
Dec	1	Brought in Cash and commenced business	1200
		Banked	1150
		Purchased Shop and Office Fittings, cheque	100
,,	2	Bought on credit from Silton & Sons, goods	150
		Paid Carriage in cash	1
		Paid Insurance in cash	8
,,	4	Cash Purchases	16
,,	6	Credit Sales to John Wight, goods	35
		Cash Sales for the week	36
		Wages paid in cash	18
		Banked	20
,,	8	Purchased Goods for cheque	33
		Paid Travelling Expenses	6
		Sold on Credit to A Green goods	25
,,	12	Cash Sales for the week	32
		Wages paid in cash	19
		Private Drawings	10
,,	13	Carriage paid in cash	2
		Paid Silton by cheque for his account less 5% cash discount	
,,	14.	Sold on credit Goods to C Reid	25
,,	18	Paid Wages in cash	19
		Private Drawings	10
		Cash Sales for week	36
,,	24.	Paid Postages and Petty Expenses	3
		Received from J Wight cheque £24. Discount £1.	
		Received from A Green £20 to account.	
		Cash Sales for week	14
		Withdrew from bank to augment office cash	50
		Paid Wages	20
		Private Drawings	10
,,	31.	Cash Purchases	6
		Bought on credit from A Walkington	121
		Sold Goods on credit to S Shaw & Co	16
		All Cash Banked except £10 retained in till.	

3 (Revision) (*From the Institute of Certificated Grocers.*)

Enter the following transactions in a columnar Petty-cash Book and bring down the balance—

			£	s.	d.
Feb.	1.	Received from the Cashier	10	—	—
,,	1.	Paid fares to London		8	4

			£	s	d
Feb.	2.	Paid Window Cleaning		3	6
,,	4	Bought Stationery		11	1
,,	7	Paid R Jones—Ledger Account		19	6
,,	11.	Bought Postage Stamps		10	–
,,	12	Cost of a Telegram		1	5
,,	16	Paid Carriage on Goods		2	9
,,	18	Bought Counter Books		15	8
,,	21.	L M S Railway A/c		3	3
,,	22	Paid Phonotas A/c for cleaning telephone	1	5	–
,,	23	Bought Postage Stamps		10	–
,,	25.	Paid for Testing Scales		7	–
,,	28.	Received amount of month's expenditure from Cashier			

What system is being employed in this case?

(*Note that the Petty Cash Book will require to have an extra column in this case for sundry Ledger Accounts paid*)

QUESTIONS

1. How may the Shop Counter Book be used as a recording medium for Credit Sales?
2. Why are "recapitulation" sheets necessary in addition to counter book duplicates?
3. Explain the different methods of recording Credit Sales, and say which are in common use to-day

CHAPTER V

INTRODUCTION TO THE JOURNAL—OPENING ENTRIES

THE Journal is one of the books of original entry and at the present day it is a book with two money columns, the inner being used for debit items and the outer for credit ones. The book is sub-divided into four parts, these being written successively in the following order—

(*a*) Opening entries.
(*b*) Intermediate entries.
(*c*) Adjusting entries.
(*d*) Closing entries.

Although this chapter is devoted solely to the opening entries, it should be noted that all Journal entries are made in the same way. The date is inserted at the left-hand side and on the same line in the particulars column is written the name of the account to be debited, and the amount is extended in the inner column. Immediately under is written the account to be credited, prefixed by the word "To" with the amount extended to the outer column. On the succeeding lines is given the "narration," which explains the reason for the entry.

It is of the utmost importance to notice that the amount in the debit column is the same as the one in the credit column, although combination Journal entries are permissible where the total items on the debit side sum the same as the credit ones.

An example of a combination Journal entry is to be seen in the opening Journal entry necessary at the beginning of each new financial period (usually every six months or year, depending on how often stock is taken). The outstanding balances in the accounts of the previous period are brought into the new period by this means and the surplus of assets (i.e. the person's property) over liabilities represents the capital of the proprietor or proprietors.

We give at the top of page 21 an example of such an entry.

If the liabilities exceed the assets there is said to be a deficiency of capital, and the amount would require entry among the debits, for the sum of both sides must agree.

Where the books have not been kept on a proper basis previously it is possible to make a commencement by taking an inventory of the assets and the liabilities, finding the capital of the proprietor and making a Journal entry of the foregoing type. The capital of the proprietor should not be confused with the capital of the business, the latter being the total of the assets, i.e. the sum total of Cash, Debtors, Stock-in-trade, Fixtures, Plant, and Buildings.

JOURNAL

	Opening Entries		Dr	Cr.
			£	£
Sept 1	Cash in Hand	Dr	5	
	Cash at Bank	,,	105	
	G Tait	,,	14	
	L Dick	,,	16	
	M. Tom	,,	8	
	Stock-in-trade	,,	320	
	Fixtures and Fittings	,,	40	
	Plant and Machinery	,,	100	
	Buildings	,,	1000	
	To S Simpson			36
	,, L Kirkton			112
	,, Capital			1460
	Opening entries @ 1st Sept. 19—		£1608	£1608

In the case of a business commencing and *cash only* being introduced, a Journal entry may be made, debiting Cash and crediting the Capital A/c of the person starting, but it is also permissible, and more usual, to omit the Journal entry in such cases and to write the incoming cash directly into the debit side of the Cash Book as "To Capital A/c £— – –."

EXERCISES ON CHAPTER V

1.
John Jackson trading as a furniture dealer had £800 standing to the credit of his Capital A/c on the 1st Jan in the books of the business. The other balances appearing on the books on this date were—

Debit Balances	£	Credit Balances	£
Stock	813	Creditors—	
Debtors—		F. Hammond	134
F. Larner	62	L. Yates	81
N. Sturgess	49	E. Bridge	77
Cash at Bank	113		
Cash in Hand	10		
Furniture and Fittings	45		

Make the opening Journal entries.

2.
Make the opening Journal entries to record L. Russel's deficiency of capital, and also the following assets and liabilities:—

Deficiency of Capital £129, Cash in Hand £25, Bank Overdraft £400, Debtors, J. Wight £18, A. Green £36, G. Glass £42, Stock £300, Fixtures and Fittings £40, Machinery £30, Creditors, A. Aikman £20, L Liveson £45, C. Canns Ltd. £55, T. Timms (Loan) £100. All at 1st Sept. 19—.

3 (Revision) (*Adapted from the Royal Society of Arts*)

John Miller commenced business as a draper on 3rd July, 19—, with £250 at the Bank, £3 Cash in Hand, and Stock £300 The Stock has not yet been paid for, having been obtained on credit as follows—

J Beale & Co £110, F Hall & Sons, £60, Thomas Fisher, £90, and Hugh Jones Ltd, £40

J Miller also possessed furniture and fixtures valued at £70

Make the opening Journal entries to record the above items (ascertain and insert Capital of the Proprietor), and then make subsidiary books for his transactions during the first week of July as follows—

July 3 Paid Cash for Stamps 5s, and Stationery 6s 8d
Purchased from Beale & Co 120 yds Flannelette at 4s 3d per dozen yds, on credit
,, 4 Purchased from F Hall & Sons, 600 yards Shirting (240 yds at 8s 3d per dozen yds, and 360 yards at 10s 9d per doz yds) on credit
,, 5 Bought for cash, Brown Paper and String 15s
Banked Cash Sales for 3rd and 4th July £27 10s (Note to debit the cash sales in the cash column first, and then to make the double entry placing them in the Bank—although it is also permissible in such cases to place the cash sales in the bank column immediately, and so avoid the three entries, in the same way as cheques received are banked without being entered in the cash column)
,, 6. Banked Cash Sales for the 5th July £16 5s
Paid by cheque to Beale & Co £30 on account
Paid by cheque Hugh Jones's A/c less 2½% discount
,, 7 Paid in cash, carriage 13s 6d
,, 8. Sold Miss H Hayman on credit—
10 yards Sheeting at 1s 5d per yd
1 doz reels Assorted Cottons for 2s. 3d
2 pairs Lace Curtains at 16s 11d. per pair.
Banked Cash Sales for 6th and 7th July £32 15s
Drew and cashed cheque for £10 and paid wages £7 5s

QUESTIONS

1 Where the Capital of the Proprietor is not stated, how is it possible to arrive at the true figure?

2 Explain the difference between the Capital of the business and the Capital of the Proprietor.

3 Define "Opening entries" and state in what subsidiary book they are to be found

4. Where a business is opened with cash only, what alternative is there to the opening Journal entry?

5. "Narrations" are said to be necessary for every kind of Journal entry. What are they?

CHAPTER VI

THE PERSONAL LEDGERS

THE Ledgers are the principal books and contain the accounts of the business house. They are of two kinds, *Personal,* which are being dealt with in this chapter, and *Impersonal,* which form the subject of the next.

It is usual to have two Personal Ledgers, one containing the accounts of persons (firms or companies), to whom trade goods have been sold on credit and who are therefore debtors to the business. This one is termed the *Sales* or *Debtors Leager* and it is arranged alphabetically. Where numerous accounts have to be dealt with it may be sub-divided into a number of books, e.g. A—G, H—N, O—Z.

The other Personal Ledger contains the accounts of persons (firms or companies) to whom the business owes money for purchases of trade stock on credit, i.e. its trade creditors, and it is known as the *Purchases* or *Creditors Ledger.*

The accounts in the Personal Ledgers group the transactions which are recorded in the books of original entry, under the names of the various persons, and arrange them historically so that the whole dealings with each person come under view on one page.

The system of folioing described in the first chapter makes it unnecessary in posting (the word used to describe the transfer of entries from the books of original entry to the Ledger) to give more details in the Ledger than the date and the amount, and to use the word "Goods" to describe sales or purchases, and the word "Cash" may be used to signify a payment of cash or bank cheque, plus cash discount if this has been allowed or received.

Each Ledger account is distinctively named and numbered and is ruled similarly to a single column Cash Book, with the left-hand side recording the *debit* entries and the right-hand side the *credit* ones. (See examples, pages 24 and 25.)

The usual rule given for posting the Personal Ledgers *is to Debit the Receiving Accounts and to Credit the Giving Accounts.*

The following definite rules and the illustrations will make the matter clear—

Posting the Sales Ledger

1. *Opening Entries in the Journal.*

Open separate accounts for each trade debtor, posting the Journal amounts to the *debit side*—"To Balance brought forward £ . . ."

VISIBLE INDEX
DEBTORS LEDGER

Date		Debit	Folio	Amount			Date		Credit	Folio	Amount		
1935							1935						
Jan	2	To Goods	84	1	2	6	Jan	8	By Credit	4		4	6
"	6	" "	42	1	4	0	"	31	" Balance	c/d	7	0	0
"	8	" "	21		9	0							
"	13	" "	32	1	18	0							
"	17	" "	25		16	0							
"	24	" "	52		6	0							
"	30	" "	64	1	9	0							
				£7	4	6					£7	4	6
Feb	1	To Balance	b/d	7	0	0	Feb	3	By Cash + Disc	6 B.I.	7	0	0
"	2	" Goods	48	1	4	0							
"	5	" "	61		16	0							

TERMS Net monthly. a/c. LEDGER No W. 1. SHEET No 1.

ADDRESS 6 Castle Street. NAME Wight John (Mrs).

ADDRESS 2 Fredrick Street. NAME White Louis (Mrs).

ADDRESS 1 Princes Street. NAME Wooton John. (Mrs).

ADDRESS 32 North Bridge NAME Worcester Ralph. (Mrs)

ADDRESS 19 High Street NAME Wrisel

ADDRESS 157. Pleasan NAME

ADDRESS 197

DEBIT GOODS - CREDIT CASH

NOTE THAT THE BALANCE IS BROUGHT DOWN ON THE DEBIT SIDE.

VISIBLE INDEX

CREDITORS LEDGER

DATE	DEBIT	FOLIO	AMOUNT			DATE	CREDIT	FOLIO	AMOUNT		
1935 Mar 31	To Balance c/d.		£39	17	0	1935 Mar 1	By Goods	16	12	14	0
						" 16	" "	36	14	2	0
						" 30	" "	48	13	1	0
			£39	17	0				£39	17	0
Ap 6	To Credit	14	£	15	0	Ap 1	By Balance	b/d	39	17	0
30	" Cash + Disc	CB6	39	2	0	19	" Goods	93	8	14	0
"	" Balance c/d		27	19	0	30	" "	99	19	5	0
			£67	16	0				£67	16	0
						May 1	By Balance	b/d	27	19	0

TERMS 2½ %. m. a/c. LEDGER No S 1. SHEET No. 1.

ADDRESS Camelon NAME Saunders Ltd.

ADDRESS Bonnybridge NAME Sise Dairies Co.

ADDRESS Falkirk. NAME Simpson, J. + Co.

ADDRESS Stirling NAME Sudlow, R. Ltd.

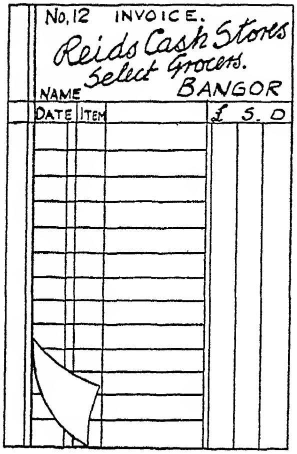
ADDRESS Denny NAME

ADDRESS Grange

DEBIT CASH — CREDIT GOODS

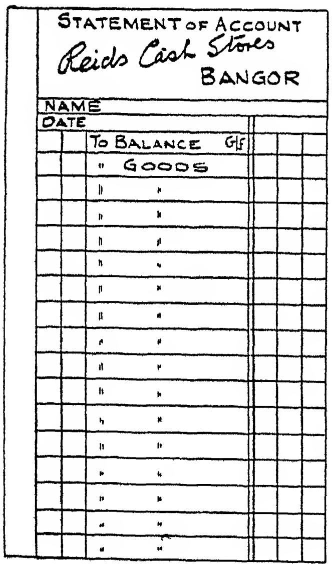
NOTE THAT THE BALANCE IS BROUGHT DOWN ON THE CREDIT SIDE

DUPLICATE STATEMENT-OF-ACCOUNT. ENTRIES



1/

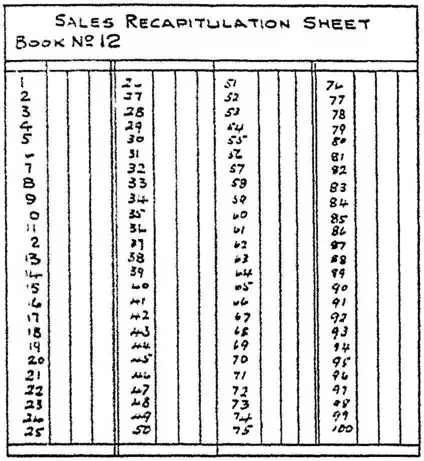
THE GOODS ARE DETAILED IN DUPLICATE COUNTER BOOKS, THE TOP BEING DETACHED AND FORMING THE INVOICE AND THE DUPLICATE BEING DETACHED AND FILED ALPHABETICALLY



2/

THE TOTALS OF EACH DUPLICATE ARE ENTERED ON DUPLICATE STATEMENTS ACCORDING TO CUSTOMER AND AT THE END OF THE MONTH THEY ARE ADDED AND THE TOP COPY IS POSTED TO THE CUSTOMER WHERE THERE IS AN UNPAID BALANCE, THIS IS BROUGHT FORWARD TO THE TOP OF THE ACCOUNT.

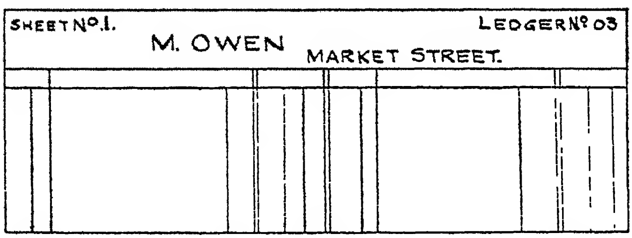
SYSTEM OF POSTING.



3.

THE TOTAL OF EACH INVOICE DUPLICATE IS NOTED ON THE SALES RECAPITULATION SHEET, THE TOTALS OF WHICH ARE SUMMARIZED AND RECORD THE TOTAL GROSS SALES

DEBTORS LEDGER.



4.

ONLY THE TOTAL OF THE STATEMENT-DUPLICATE IS RECORDED IN THE LEDGER, I.E., ONE MONTH'S SALES ARE ENTERED ON ONE LINE ON THE DEBIT SIDE.

2. *Sales Day Book.*

Post each invoice total to the *debit side* of its respective account in the Personal Ledger—"To Goods . . ."

3. *Cash Book—Debit (Receiving Side).* PERSONAL ITEMS.

Post the cash received (or bank cheques), adding cash discounts where these have been allowed, to the *Credit Side* of the Ledger Accounts of the persons referred to—"By Cash."

4. *Balancing the Ledger.*

The accounts should be balanced frequently, in the same way as the Cash Book, the amount being entered on the credit side to make the totals agree and the balances being brought down on the debit side.

Posting the Purchases Ledger

1. *Opening Entries in the Journal.*

Bring down balances for the trade creditors in the same way as was done for the debtors, but on the credit side—"By Balance brought forward £ . . ."

2. *Purchases Day Book.*

Post each invoice total to the *credit side* of its respective account in the Personal Ledger—"By Goods £ . . ."

3. *Cash Book—Credit (Payments Side).* PERSONAL ITEMS.

Post the cash paid (or bank cheques), adding cash discounts where these have been received, to the *debit side* of the Ledger Accounts of the persons referred to—"To Cash £ . . ."

4. *Balancing the Ledger.*

Balance this Ledger in the same way as the Debtors Ledger, only the balances will be credit ones and should be brought down on the *credit side.*

In exercise and examination work one Ledger very often serves for debtors and creditors and frequently it is necessary to post both sales and purchases into the same account, but this is not done in practice.

In shops where Counter Books are used, a practice is growing up of posting the copies which are retained to *duplicate statements-of-account* and only posting the total of the statement to the Ledger (see illustration). The duplicate of the statement must, of course, be retained till the account is paid so that a reference may be had to the invoices, should they be called for. As the Statements

are being prepared throughout the month there is no delay in having them posted at the end of the month. The system has limitations in the case of firms where it is necessary to refer back for particulars of goods sold previously, as in the Hardware and Ironmongery trades Nor is the practice favoured in departmental shops.

EXERCISES ON CHAPTER VI

1 Refer to exercises, 1 2 and 3 in Chapter II and post trade debtor and creditor items to the Personal Ledger (Note particularly that all items on the debit side of the Cash Book are posted to the credit side of the Ledger and all items on the credit side of the Cash Book are posted to the debit side of the Ledger)

2. Refer to exercises 1 and 2, Chapter III, and post all items to the Creditors Ledger, credit side

3 Refer to exercises 1 and 2, Chapter IV, and post all items to the Debtors Ledger, debit side

4. Refer to exercise 3, Chapter V, and post the relative items to the Personal Ledger. Balance all accounts

5. (*From the Institute of Certificated Grocers*)

J Frost sold various goods to A Green He also purchased goods from A Green and at Dec. 31, 19—, Green's Accounts in Frost's books showed a debit balance of £18 5s. 6d on the Sales Ledger and a credit balance of £7 2s. 6d. on the Bought Ledger. They decided to settle these accounts on Jan 10. Frost's terms to Green provided for 3¾% cash discount, while Green allows 2½%

Show both Accounts in Frost's books and show therein the entries necessary to effect the above-mentioned settlement.

QUESTIONS

1. What is meant by the Personal Ledgers?

2 Explain the advantages and disadvantages of the duplicate Statement-of-Account system.

3. What is the guiding rule in posting Personal Account items?

4. A customer asks how his account stands, and on consulting the Ledger you find there is a debit balance of £30 What would you reply?

CHAPTER VII

THE IMPERSONAL LEDGERS

THE Impersonal Ledgers are of three kinds—

1. The Real or Property Ledger.
2. The Nominal Ledger.
3. The Private Ledger.

The Real Ledger contains records of the property, plant, fixtures, delivery vehicles, investments, and any other possessions of this class, including stock-in-trade. It will be remembered that the Cash Account and Bank Accounts should also be in this Ledger, but the special design of the three-column Cash Book makes the entries in the Ledger unnecessary. As the balances are supposed to be in this Ledger it must always be remembered to take account of them when listing the accounts in this Ledger.

The Nominal Ledger is used for the accounts relating to the profits and losses.

The Private Ledger includes the Capital and Drawings Accounts of the proprietors. In a way the Private Ledger could be said to be a Personal Ledger showing what the business owes to its proprietors, but it is usual to group it with the Impersonal Ledgers.

These Ledgers contain all the items not posted to the Personal Ledgers and are ruled in the same way, the left hand being *debit* and the right hand being *credit*.

In posting it may be useful to remember the following general principles—

1. *Real Ledger*. Debit receiving accounts, credit disposals.
2. *Nominal Ledger*. Debit all losses, credit all gains.
3. *Private Ledger*. Debit private drawings, credit capital brought in.

The following definite rules in regard to the postings in these Ledgers, together with the illustrations, will make the matter clear—

1. The Real Ledger

Journal Postings.

(*a*) Open accounts for the various accounts and possessions of the business, which are detailed in the Journal opening entries, and post the amounts to the *debit* side, as "To Balance brought forward £ . . ."

Cash Book Postings.

(*b*) Post the related payments of cash (Cash Book, credit side) to the *debit* side of the account concerned, e.g. a payment of £135 for a motor van would be posted to the debit of Motor Vans Account —"To Cash £135."

(*c*) If any item in the Real Ledger be sold, the cash received will be entered on the debit side of the Cash Book, and should be posted to the credit side of the account in the Real Ledger.

2. The Nominal Ledger

Sales Day Book Postings.

(*a*) Open a Sales Account in the Ledger and post the total amount of the book to the credit side—"By Total, S.B. £ . . ."

Purchases Day Book Postings.

(*b*) Open a Purchases Account in the Ledger and post the total of the book to the debit side—"To Total, P.B. £ . . ."

Cash Book Postings.

(*c*) Post total of discounts allowed to the *debit* of a "Discounts Allowed" Account—"To Cash Sept. £ . . ."

(*d*) Post total of discounts received to the *credit* of a "Discounts Received" Account—"By Cash Sept. £ . . ."

(*e*) Open accounts for all the establishment charges, rent, rates, commission, wages, lighting and heating, etc. All payments entered on the credit side of the Cash Book should be posted to the *debit* side of the account concerned "To Rent £ . . ."

(*f*) Sundry gains against these accounts on the debit side of the Cash Book should be posted to the *credit* side of the Ledger Account.

3. The Private Ledger

Cash Book Postings.

(*a*) Capital brought in by the proprietor will be on the debit side of the Cash Book and should be posted to the credit side of the Capital Account in the Ledger—"By Cash £ . . ."

(*b*) Private Drawings should be on the credit side of the Cash Book and require to be posted to the debit of a Private Drawings Account.

Opening Journal Entry Postings.

(*c*) In practice the balance of this account will already appear in the Capital Account, being brought forward at the end of the previous period, but in exercise work it will be necessary to open a Capital Account and to post the balance shown in the opening

TYPICAL NOMINAL LEDGER.

DATE		DEBIT	FOL	AMOUNT			DATE		CREDIT	FOL	AMOUNT		
Feb	9	To Printers Ltd	6B8	8	5	0							
Mar	4	" Paper Bag Co	6B9	3	10	0							
"	6	" Supplies Ltd	6B9	4	5	0							

TITLE OF ACCOUNT	STATIONERY	No 1
TITLE	DISCOUNTS RECEIVED	No 2
TITLE	DISCOUNTS ALLOWED	No 3
TITLE	TRADE INSURANCES	No 4
TITLE	TELEPHONE	No 5
TITLE	CARRIAGE INWARDS	No 6
TITLE	TRADE EXPENSES	No 7
TITLE	MOTOR RUNNING EXPENSES	No 8
TITLE	WAGES & SALARIES INCLUDING NATIONAL INSURANCE	No 9
TITLE	SUBSCRIPTIONS	No 10
TITLE	DEBT COLLECTION	No 11
TITLE	ADVERTISING	No 12
TITLE	GROUND RENTS	No 13
TITLE	RATES & TAXES	No 14
TITLE	SALES	No 15
TITLE	PURCHASES	No 16

Typical Real or Property Ledger.

Date		Debit	Fol	Amount			Date		Credit	Fol	Amount		
July	1	To [illegible] Coffee mill	[illegible]										

Title No 1. Plant & Machinery

Title No 2. Freehold Property

Title No 3. Motor Van

Title No 4. Fixture's & Fittings (Fixed)

Title No 5 Fixtures & Fittings (Portable)

Title No 6. Stock in Trade

Typical Private Ledger.

Date		Debit	Fol	Amount			Date		Credit	Fol	Amount		
							1935 Jan	1	By Cash	631	900	0	0

Title No 1. Proprietor's Capital

Title No 2. Private Drawings

entries, into the Capital Account in the Private Ledger—"By Balance, brought forward £ . . ."

EXERCISES ON CHAPTER VII

1 J Rose had a balance of Capital of £420 at his credit on the 1st Jan. 19—. On the 4th April he brought in a further £200 and on the 10th Sept £600. He withdrew £33 at the end of each month Show the Private Ledger A/c and the Private Drawings A/c at the end of the year

2 In the books of W Walker the Motor Vans A/c shows a debit balance of £60 on the 1st Sept 19—, representing a van, which was sold on the 8th October next for the book value A new van was purchased at the time of sale for £140 and paid by cheque Prepare a Motor Vans A/c in the Real Ledger showing these transactions, and balance down the A/c on the 1st Dec 19—.

3 A business lights its premises by electricity, uses gas for some inside purposes, and heats the shops by means of hot water radiators, which necessitates the purchase of coke The following are the bills paid during the year Prepare the Lighting, Heating and Power A/c (one account) in the Nominal Ledger from these items

Electric Bills paid	£ s d	Gas Bills paid	£ s d.	Coke Bills paid.	£ s d
Apl 3	16 2 3	Mar 4	1 2 –	Mar 1	10 8 3
Sept 6	12 6 –	Aug 5	18 6	Sept. 1	15 –
Dec 8	17 1 8	Nov. 7	1 3 1	Dec. 1	12 3 6

4. Open the three Impersonal Ledgers and post the relative items from the undermentioned cash summary (Note that neither the Debtors total nor Creditors total are posted to the Impersonal Ledgers, but the discounts received and paid must be posted to the Nominal Ledger.)

		Dis	Cash			Cash
		£ s d	£ s d			£ s. d
Jan. 1.	To Balance b/f		93 4 5	Jan 1	By Cash Purchases	8 10 3
	„ Capital brought in		500	to Dec 31	Cred A/cs paid (Dis £170 8s. 1d.)	1512 18 3
Year	„ Cash Sales		1350 14 2		Salaries . .	1816 3 3
	„ Debtors' A/cs recd.	38 10 2	6029 15 3		Commission . .	5
					Ground Rent . .	13 8 9
					Lighting, Heating & Power . .	37 16 11
					Telephone . .	56 5 2
					Insurance . .	82
					Postages . .	35 5 10
					Carriages . .	49 9 5
					Stationery . .	38 14 5
					New Van . .	200
					Van running . .	69 5 10
					New Fixtures .	100
					General Exps. . .	36
					Debt collection	1 9
					Advertising	32 4
					Drawings (by Proprietor) . .	400
				Dec 31	By Balance . . .	479 2 9
		£38 10 2	£7973 13 10		£170 8 1	£7973 13 10

5 (*From the Institute of Certificated Grocers*)

X Limes, a Grocer, raised a mortgage of £600 at 5% interest per annum on the deeds of his house on January 1, 19— He reduced the principal by £25 on each of the following dates, viz —March 31, June 30, September 30, and December 31, on each of which dates he paid the quarter's interest then due Show the Mortgage and Interest Accounts (In calculating the interest take each relative period as being exactly a quarter of a year)

Note that the Mortgage A/c would be raised in the Real Ledger, but the Interest A/c would be in the Nominal Ledger

QUESTIONS

1 Why are Nominal Accounts kept?

2. What guiding rules will assist you in posting to (*a*) Personal Accounts, (*b*) Impersonal Accounts?

3. What kind of transactions are posted to the *credit* side of the Real A/cs?

4 There is one Account in the Nominal Ledger, which has all its items posted to the credit side. Name the Account and explain the reason Also give instances where items may be posted to the credit side of the other Nominal Accounts.

CHAPTER VIII

FIRST CONTROLS—THE TRIAL BALANCE

CONSIDERATION of what has gone before will show that all the entries in the books of original entry, so far explained, are transferred into one or other of the accounts in the Ledgers. At frequent intervals it is desirable to check the arithmetical accuracy of the postings, and this is done by preparing *a Trial Balance.*

When the Ledger has been completely posted it will be noticed that for every debit entry there has been a compensating credit entry as follows—

1. The Sales Day Book has been debited in detail to the Debtors Ledger and credited in total to the Sales Account in the Nominal Ledger.

2. The Purchases Day Book has been credited in detail to the Creditors Ledger and debited in total to the Purchases Account in the Nominal Ledger.

3. All the debit entries in the Cash Book have been posted to the credit side of the related Ledger Accounts.

4. All the credit entries in the Cash Book have been posted to the debit side of the related Ledger Accounts.

5. Discounts allowed are added in detail to the credit cash postings in the Debtors Ledger, and are debited in total to a Discounts Allowed Account in the Nominal Ledger.

6. Discounts received are added in detail to the debit cash postings in the Creditors Ledger and are credited in total to a Discounts Received Account in the Nominal Ledger.

7. Opening debit entries in the Journal are debited in the Ledger and credit ones are credited in the Ledger.

The only entries without dual postings in the Ledger are the transfer cash and bank contra ones in the Cash Book, which are complete in themselves, and the concluding cash and bank balances. In theory, these latter would appear as balances of Cash and Bank Accounts in the Real Ledger and it is usual to assume that they exist and to include them in the Trial Balance. On the grounds that the Bank Balance may be credit as well as debit, some advocate that it should be considered a special form of personal account like the accounts in the Private Ledger.

With every item posted twice in this way and on opposite sides it is evident that the sum of the items on both sides should agree. This method is still used in some places and is called a Total Balance. It is usually too troublesome to summate all the items in the Accounts, and in modern firms the rule is to balance down the

Example of a Trial Balance at the 31st December, 19.., after a Year's Trading

	Debits £	Credits £
Personal Ledgers		
Sundry Debtors—		
As per list attached . . .	1200	
Sundry Creditors—		
As per list attached . .		630
Impersonal Ledgers.		
Nominal Accounts—		
Discounts received		130
Discounts allowed	70	
Trade Insurances	50	
Telephone	40	
Carriage Inwards	60	
Trade Expenses	130	
Motor Running Expenses . .	160	
Wages and Salaries, inc. National Insurance	1000	
Stationery	67	
Subscriptions.	10	
Debt Collection	5	
Advertising	100	
Lighting, Heating, and Power . . .	46	
Feu Duties	10	
Rates and Taxes	100	
Sales Account		10,000
Purchases Account.	7600	
Private Accounts—		
Capital		6738
Private Drawings Account . . .	400	
Real Accounts—		
Stock at the 1st January, 19— . .	1100	
Property	4000	
Motor Van	300	
Plant & Machinery.	200	
Fixtures and Fittings	150	
Cash at Bank	647	
Cash in Hand	53	
	£17,498	£17,498

Stock as per valuation at 31st December, 19— £1050

accounts in the Personal Ledgers, first before making the Trial Balance. This of course reduces the total of the balance, but leaves the agreement of the two sides unaffected, as the balancing reduces both sides by the same amount.

The Trial Balance is not an account, it is made on separate paper, and it does not cover a period. A typical Trial Balance of a retail business with the Personal Ledgers previously balanced is given on the preceding page. It should be noted that the Trial Balance will not reveal the following errors—

(*a*) Goods supplied without being invoiced or invoiced at wrong prices.

(*b*) Postings to the correct side of the Ledger, but to the wrong account.

(*c*) Compensating errors, i e. errors which total the same on both sides.

It should be noted specially that it is the *opening* stock which is entered in the Trial Balance. The stock at the end of the period is entered as a footnote and is not included in the addition.

EXERCISES ON CHAPTER VIII

1. (*From the Royal Society of Arts—Extract*)

John Owen is a Wholesale Grocer and Provision Merchant. On the 1st Jan. 19— his books revealed the following position—

Stock £625, Fixtures and Fittings £171, Sundry Debtors—L Kirk £26 8s. 4d, R Clay £74 10s 6d, Creditor—J. Barnett £184 7s 8d; Cash at Bank £342 7s 8d.

Open the accounts necessary to record the above state of affairs and post thereto, through the proper subsidiary books, the following transactions—

Jan 1 Drew from Bank for Office purposes £60.
,, 2 Paid in Cash Wages £22 10s, Fire Ins. Premium £8 9s 6d.
,, 3 Cash Sales to date paid into Bank £104 7s 8d
,, 7. Received from L Kirk, cheque in settlement of account. Paid the amount into bank.
,, 10 Sent to L. Kirk, cash 19s. 11d. for discount allowed him on settlement of his account. (*Note.—Two entries will be necessary, one in the Discount Allowed column on the debit side and one in the Office cash column on the credit side.*)
,, 11. Bought on credit from the Grocers' Supply Co., ½ doz hams, total weight 1¼ cwts., at 133s per cwt.; 1½ doz. tinned fruits at 12s 6d. per doz., 7 cwts. sugar at 30s per cwt.; 1 chest tea for £12 15s. The whole invoice subject to a trade discount of 10%.
,, 12. Sold on credit, to R. Clay, three gross tins Condensed Milk at £4 16s. per gross, subject to a special discount of 20%; 28 lbs. of dried fruit at 11d per lb, 24 tins biscuits at 5s 6d. per tin.
,, 24. Paid the Grocers' Supply Co. £15 on account less 2½% cash discount.
,, 27. Received cheque from J. Barnett for the amount due to him.

Balance the Ledger, bring down the balances of the Personal Ledgers, and extract a Trial Balance as on January 31st 19—.

2 Statement of liabilities and assets as at 1st Sept 19—

Liabilities	£	*Assets*	£
F Hammond	208	Cash in Hand .	44
Mortgage on Property (Loan (A/c) . . .	1000	Cash at Bank . .	1400
		Stock in Trade . .	260
		Fixtures and Fittings	290
		F Larner . .	220
		S Sturgess . . .	32

Sept	1	Sold goods on credit to F Larner £200
,,	3	Paid carriage in cash 4s 6d
,,	4	Paid travelling expenses in cash 17s
,,	5	Private Drawings cheque £5.
,,	8	Bought goods on credit from E Hammond £230
,,	10	Cash Purchases, cheque £80
,,	11	Paid postages in cash 10s
,,	12	Sold goods on credit to S Sturgess for £173
,,	13	Paid interest on loan, six months at 5 per cent per annum
,,	14	Cash Sales for fortnight £76
,,	16	Paid F. Hammond £208, less 2½% discount for cash, by cheque
,,	18	Received cheque from F Larner £220 less 5% cash discount. Cheque banked same day
,,	19	Sold goods on credit to S Sturgess £40
,,	20.	Bought goods on credit from E Bridge £65
,,	24	Paid carriage 15s 6d
,,	28	Cash Sales for fortnight received and banked £84
		Paid Salaries for month by cheques £83
,,	30	Private drawings, cash, £16.

Open the necessary subsidiary books, enter in the above transactions, and post to the ledgers Thereafter, balance down the Personal Ledgers and prepare a Trial Balance

3. Prepare a Trial Balance from the following information, as at the 31st December, 19—

The Debtors' Ledger has been balanced and the list of balances adds to £2400. The Creditors Ledger has also been balanced and has a total of £1260

The Private Ledger shows a credit "Capital A/c" balance of £13,476 and the Private Drawings Account a debit balance of £800.

The Real Ledger shows the following debit balances:—Stock on 1st Jan. £2200, Property £8000, Motor Vans £600, Plant and Machinery £200, Fixtures and Fittings £300, Cash at Bank £847, Cash in hand £106.

The following balances are in the Nominal Ledger:—Purchases £15,200, Sales £20,000, Rates and Taxes £200, Ground Rent £20, Advertising £200, Debt collecting costs £10, Trade Subscriptions £20, Stationery £134, Wages and Salaries, including National Insurance (employers' proportion) £2000, Motor running expenses £320, General Trade Expenses £260, Carriage charges £120, Telephone £80, Trade Insurances £100, Discounts received £260, Discounts allowed £140

Stock was taken on the 31st December and amounted to £2121

QUESTIONS

1. What is the purpose of the Trial Balance?
2. What kind of errors will the Trial Balance not reveal?
3 Why is it that the closing Stock-in-Trade figure is not included in the Trial Balance?

CHAPTER IX

CLOSING ENTRIES, FINAL ACCOUNTS, AND BALANCE SHEET

WHEN it is desired to ascertain the profit or loss for the previous period, the trade stock should be taken in a separate book and valued at cost or market price, whichever is the lower. The total value of this stock is brought into the Real Ledger by means of a Journal entry, as follows:—

Dec 31	Stock A/c .	*Dr*	£1050	
	To Trading A/c .			£1050
	Total value of Stock at 31st Dec in accordance with valuation sheets			

The Personal Ledgers should be balanced at the close of the same day, and the balances brought forward to the first day of the new period. The Trial Balance should also be prepared at this time, before making the above Journal entry.

Everything is then in readiness for closing the books. The balance of the trade stock at the beginning of the period (the Stock Account balance in the Real Ledger in the Trial Balance), and also the various balances in the Nominal Ledger, are closed (i.e. squared) by transfers to a new Account which is divided into two parts. The first part is named the Trading Account and receives the balances which fluctuate in sympathy with the sales, viz. the net cost of the goods, including the inwards carriage, and also the net sales.

The second part is called the Profit and Loss Account and receives the balance of the Trading Account (which, if a credit one, is known as the gross profit, whilst a debit is a gross loss) together with all the other nominal balances representing the establishment charges for the particular period, and sundry gains throughout the period, such as discounts received.

The balance of the Profit and Loss Account (representing a net gain if a credit balance and a net loss if a debit one) is transferred to the Capital Account as is also the balance of the Private Drawings Account.

It must be thoroughly understood that no entry may be made in the accounts in the Ledger, except by way of the books of original entry. The Journal is used and the entries necessary for the transfers referred to are called the "Closing Entries." Given the Trial Balance illustrated in the previous chapter, the example given on page 41 would be the "Closing Entries" in the Journal.

Journal Closing Entries
(Made after the Trial Balance has been prepared)

				£	£
Dec	31	Stock in Trade A/c . . . . *Dr.*		1050	
		To Trading A/c . . .			1050
		Stock at 31st Dec as per valuation sheets			
,,	31	Trading A/c . . *Dr*		8760	
		To Sundries .			8760
		Sundries—	£		
		Stock at 1st Jan .	1100		
		Purchases less returns	7600		
		Carriage inwards .	60		
			£8760		
,,	31	Sundries . . *Dr*		10,000	
		To Trading A/c . .			10,000
		Sundries—	£		
		Cash & Credit Sales less returns	10,000		
,,	31	Trading A/c *Dr*		2290	
		To Profit & Loss A/c			2290
		Transfer of Gross Profit			
,,	31	Profit & Loss A/c . *Dr.*		1788	
		To Sundries .			1788
		Sundries—	£		
		Discounts allowed	70		
		Trade Insurance .	50		
		Telephone	40		
		Trade Expenses .	130		
		Motor Car Expenses	160		
		Wages & Salaries .	1000		
		Stationery .	67		
		Subscriptions	10		
		Debt Collecting	5		
		Advertising .	100		
		Light, Heat, Power .	46		
		Feu Duties and Ground Annual	10		
		Rates & Taxes	100		
			£1788		
,,	31	Sundries . *Dr*		130	
		To Profit & Loss A/c			130
		Sundries—	£		
		Discount received . . .	130		
,,	31.	Profit & Loss A/c *Dr.*		632	
		To Capital A/c .			632
		Transfer of Net Profit.			
,,	31.	Capital A/c . . . *Dr.*		400	
		To Private Drawings A/c . .			400
		Transfer of Drawings of Owner.			

Below are given the Trading and Profit and Loss Accounts (the Final Accounts) after the Journal closing entries have been posted. It will be noted that the end stock has been subtracted from the purchases on the debit side, instead of being posted to the credit side. This does not affect the profit in any way, because the same amount is less on both sides, but it is advantageous as showing at a glance the net cost of the goods sold *The principle is a vital one and should be thoroughly understood, as in future accounts, grouping of related opposite side items will be brought together by subtraction.*

Dr. TRADING ACCOUNT FOR THE YEAR ENDED DEC 31ST, 19— *Cr*

	£		£
To *Net Cost of Goods Sold*		By Sales for year .	10,000
Stock at 1st Jan 19—	1100		
Purchases during year	7600		
Carriage Inwards .	60		
	8760		
Less Stock at 31st Dec	1050		
	7710		
To Balance (Gross Profit) c/d	2290		
	£10,000		£10,000

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DEC 31ST, 19—

Dr. *Cr*

	£		£
To Discounts allowed .	70	By Balance (Gross Profit) b/d	2290
Trade Insurance .	50	Discounts recd .	130
Telephone .	40		
Trade Expense .	130		
Motor Car Expense .	160		
Wages, Salaries, inc N I .	1000		
Stationery .	67		
Subscriptions	10		
Debt Collections . .	5		
Advertising	100		
Light, Heat, Power	46		
Feu Duties, Ground Annual . .	10		
Rates, Taxes .	100		
Balance (Net Profit to the Capital Account)	632		
	£2420		£2420

It will be seen that as the Trading and Profit and Loss Accounts (Final Accounts) have been prepared, when the closing entries have been posted to the relative accounts the only balances remaining in the Ledger will be the *real* and *personal* ones and of course the balance of the Capital Account in the Private Ledger.

The totals of these balances represent the assets and liabilities of the business and they are usually grouped together in a statement to which the name of Balance Sheet is given. This Balance Sheet is not an account, it has no debit side nor credit side, and it may be written in a variety of ways. The commonest method is to group the debit balances on the right-hand side under the title of *Assets*, in the order of their realizability, starting with cash, the credit balances being on the left-hand side under heading of *Liabilities and Capital*. It is also usual to show the movements in the Capital Account, from the time of the last balancing, thus—

Capital Account—

	£	
By Balance brought forward	6738	
Add		
Capital brought in during year . . .	——	
Net profit for year	632	
	£7370	
Deduct private drawings . . .	400	
		£6970

Balance Sheet as at 31st Dec , 19—

Liabilities & Capital			Assets		
		£		£	£
Liabilities			Cash in Hand . .	53	
On Trade A/cs . .		630	Cash at Bank . .	647	
Capital Account					700
Balance brought	£		Sundry Debtors		
forward .	6738		On Trade A/cs.		1200
Add Net Profit	632		Stock in trade . .		1050
			Motor Van .		300
	7370		Plant & Machinery . .		200
Deduct private			Fixtures & Fittings . .		150
drawings .	400		Property . .		4000
		6970			
		£7600			£7600

Particular attention should be given to the fact that it is possible to make up the Final Accounts and Balance Sheet from the Trial Balance, although no Ledger is available, provided it is remembered to put the new stock in the Trading Account and also in the Balance

Sheet among the assets. In examination work the closing entries should be omitted unless particularly asked for, in all questions calling for the Final Accounts and Balance Sheet.

It will be seen from the Balance Sheet of the firm's books we have just closed, and which is given on page 43, that both sides of the Balance Sheet should agree if the work has been properly carried out.

EXERCISES ON CHAPTER IX

1 Refer to Chapter VIII, Exercise 3 From the Trial Balance make the closing entries, final accounts, and Balance Sheet (Do not open the accounts in the Ledger for this exercise except the Trading and Profit and Loss Accounts This rule is applicable wherever a Trial Balance is given)

2. From the following particulars prepare Trading and Profit and Loss Accounts, and a Balance Sheet as at 31st December, 19—.

TRIAL BALANCE

	Dr £	*s*	*d*	*Cr* £	*s*	*d*
Capital of the Proprietor at 1st Jan				1724		
Private Drawings	35					
Fixtures and Fittings	100					
Stock-in-Trade	300					
Net Purchases	524					
Net Sales				396		
Discounts received				35	18	
Discounts paid	32					
Trade Expenses		18	6			
Debtors as per list	50					
Creditors as per list				215	3	6
Cash on Hand	145	3				
Cash at Bank	1184					
	£2371	1	6	£2371	1	6
Stock at 31st Dec —£132						

3. (Revision) (*From the Royal Society of Arts*)

Wm. Uprichard is in business as a Corn Merchant On March 1st 19— his books disclosed the following position—

Cash £13 1s 6d., Overdraft at Bank £10 8s 6d., Debtor, J Male, £35 6s. 7d., Stock £386 10s , Premises and Fittings £1500, Sundry Creditors · J Cornish £96 19s 4d , William Oates £106 15s.

Open the accounts necessary to record the above position and post thereto, through the proper subsidiary books, the following transactions—

March 3. Sold on credit, to J Male, 10 sacks Rye at 16s 6d per sack, 3 cwt dog biscuits at 19s 6d per cwt , 1 doz bags flour at 1s. 8d. per bag. Rye sacks are non-returnable and are charged out at 1s each

„ 6. Paid W Oates, by cheque, the amount due to him, less 5 per cent cash discount

„ 10. Paid Wages in cash £5 8s. 4d.

March 14 Bought on credit, from J Cornish, 12 half-cwt bags Seeds at 34s per cwt, 12 bushels Seed Potatoes at 3s per bushel, a quantity of meal for £5 Trade discount was allowed on the goods (except the meal) of 20% The meal was invoiced net

,, 17 Gave J Cornish a cheque for £100

,, 21 Cash Sales to date amounted to £130 4s 6d Paid the amount into the bank, with the exception of £25 which was retained for Office purposes

,, 26 W Uprichard brought into the business fresh capital amounting to £300 and paid same into bank

,, 27 J Male paid £30 on account Paid the cheque into bank

,, 29 Received £10 in cash being rent of part of premises sub-let. (Post to a Rents Received Account)

,, 31 Paid in cash, Electric Light A/c £3 7s 4d, Gas A/c £5 10s

Stock at the 31st March £422 5s

Balance the Ledger, bring down the balances, prepare a Trial Balance, Closing Entries, Final Accounts and Balance Sheet as at 31st March 19—

QUESTIONS

1 What are "Closing Entries" and why are they necessary?

2 The "Final Accounts" are in two parts Name them and explain the purpose of each

3. Define (*a*) gross profit, (*b*) net profit and say how each is ascertained.

4 To what account is the net profit transferred?

5 Neither the Trial Balance nor the Balance Sheet is an account in any of the Ledgers Explain the purpose of each and the difference between them

CHAPTER X

THE SYSTEM OF DOUBLE ENTRY

THE system, which has been described in its simplest form in the previous chapters is known as *Double-Entry* book-keeping. It is a system of accounting by means of Personal and Impersonal Accounts whereby the two-fold nature of all transactions is recorded on opposite sides of the Account Ledgers. The method has the following advantages—

1. There is a check on the arithmetical accuracy of the postings in the Ledger.
2. The profit or loss over a period may be ascertained.
3. The financial position may be known at any time.
4. There is a complete record of all transactions in orderly sequence, capable of easy reference.

No other system can give these results. So-called single-entry systems are usually abridgments of double entry, with the work carried insufficiently far or incomplete, so the controls cannot be exercised.

The double-entry system is on a scientific basis which has been proved flexible enough to cover the whole range of business transactions. In the chapter dealing with the Trial Balance, it was shown that for every debit entry there was a corresponding credit entry in the Ledger. It is now proposed to examine these entries in detail so that it may be understood that the two entries are not arbitrary or accidental, but are reasonable inferences. Examination will provide a basis for elucidating the double entries for transactions which are more difficult to appreciate. *All the Ledgers have two sides, the left-hand side being the receiving or* debit, *and the right-hand side the paying out or* credit.

Each subsidiary book must provide corresponding *contra* entries in the Ledger. For example, the Sales Day Book is posted in detail to the debit side of the Debtors Ledger and in total to the credit side of the Sales Account in the Nominal Ledger. This is strictly correct, for the business has received an increase in the number of persons who owe it money, i e. debtors, while the credit entry to Sales Account denotes the disposal of, or giving out of stock. Payments of these debts by cash or cheque (receipts) obviously involves corresponding debits to cash, and as they liquidate or pay out the debts, the persons' accounts are credited.

The Creditors Ledger is exactly opposite. Purchases represent a receipt of trade stock, and are therefore debited in total to a

Purchases Account in the Nominal Ledger, whilst the persons' accounts are individually credited in the Creditors Ledger, for they have given credit to the firm, and these persons are therefore its creditors. When the persons are paid, the creditors have received their due from the firm The firm has thus secured (or received) a release of the debts due to be paid, and the payments are therefore debited to the accounts in the Creditors Ledger, whilst Cash, being paid out, is credited

The purchase of assets such as fixtures and fittings, plant and machinery, property and the like mean additions to the real accounts, in consequence being debited to them; the credit entries being payments out of cash.

The Nominal Ledger is usually posted under the rule of "DEBIT LOSSES" and "CREDIT GAINS," and it may be difficult to understand how a loss can be a receipt. The word "loss" in its usually accepted meaning, does not accurately portray the meaning of the transaction. For instance, it is usual to talk of Wages as being a "loss" account. The truth is, of course, that the business has received services which it has paid for, and in translating the services to the financial books, it is necessary to record these services in a Wages Account. The services being a receipt, it is proper to make a debit in the Wages Account, the credit being cash for the money paid out. Similarly with taxes, lighting, heating, telephone, etc., each represents something received and the items are in consequence debits to the particular accounts concerned, the credit in each being the payment of cash.

Lastly, in the Private Ledger, in which is shown what the business owes to its proprietor, the Capital Account is credited and Cash debited for moneys brought in by the owner. Cash is debited because it is the receiving account; Capital Account is credited because the owner is a creditor of the business—not of course a trade creditor, but a special kind—and for this reason the fact is recorded in a Private Ledger, instead of in the usual Creditors Ledger. He is a creditor of the business because his Capital Account in the Private Ledger shows what the business owes to him. Private Drawings represent a payment out of cash, which is credited, whilst the money, being a receipt by the owner, is debited to his account. Where the owner takes out trade stock for his own use he should be charged with it at cost price, and his Private Drawings Account debited with its value

The fact of being able, as we have seen, to reduce every transaction to a dual compensating entry is of incalculable advantage, and it is very good practice to ascertain the double entries to all exercises until these are very familiar. This may be easily done by using the Journal as the only book of original entry. Indeed, such a practice is very necessary in some business houses, where there

is an insufficient number of one type of transaction to justify a whole book. For instance, a firm may have only a cash trade, yet on occasion make a credit sale; in such a case the unusual item could be entered through the Journal.

The debit entries in the Journal are posted to the debit side of the Ledger, and the credit ones to the credit side, following the same rule as for the opening and closing entries.

The following examples show how it is possible to replace all the subsidiary books with Journal entries, the only book of original entry being the Journal.

1. *Journalizing of a Credit Sale and the subsequent receipt of cash in payment.*

Jan 1st	W. Whitman	*Dr*	£61	
	To Sales A/c			£61
	Goods as under			
	Vacuum Cleaner	£21		
	Refrigerator	40		
		£61		
Jan. 2nd	Cash	*Dr*	60	
	Discount A/c	*Dr*	1	
	To W. Whitman			61
	Payment of account			

2. *Journalizing of a Credit Purchase and the subsequent payment of the account*

Jan. 11th.	Purchases A/c	*Dr*	78	
	To Universal Wholesalers			78
	Details on Invoice No. 1234			
Jan 31.	Universal Wholesalers	*Dr*	78	
	To Cash			75
	,, Discount A/c			3
	Payment of account			

3. *Journalizing of a Nominal Payment*

Jan. 7.	Wages A/c	*Dr*	16	
	To Cash			16
	Payment of wages and N. Insurance			

4. *Journalizing of a Real Account Purchase*

Jan 2.	Fixtures and Fittings A/c	*Dr.*	15	
	To Cash			15
	Typewriter bought			

5. *Journalizing of Capital Ledger Items*

Jan. 1.	Cash	*Dr.*	400	
	To Capital A/c			400
	Capital introduced.			
Jan. 7.	Private Drawings A/c	*Dr*	6	
	To Cash			6
	Cash withdrawn.			

EXERCISES ON CHAPTER X

1 Prepare Journal, Ledgers, Final Accounts, and Balance Sheet, using no other subsidiary books than the Journal

Liabilities	£	*Assets*	£
H Hammond	416	Cash in hand	88
Bank Overdraft	2000	Investments	2800
		Stock in Trade	520
		Fixtures and Fittings	580
		F Larner	440
		S Sturgess	64

Oct 1 Sold goods on credit to F Larner £400
Paid carriage in cash 19s
,, 2 Paid sundry petty expenses 12s
Private Drawings £5 cheque
,, 3 Cash Purchases, cheque, £160
Postages 10s cash
,, 12 Sold goods on credit to S Sturgess £83
,, 16 Paid H Hammond £200 to account
Purchased from C Canns on credit goods £62
,, 19 Cash Sales to date £132 4s 4d banked
,, 22 Cash Purchases £50
,, 26 Withdrew from bank for Office purposes £60
,, 30. Paid Wages £45 6s in cash
,, 31 Cash Sales to date £56
Banked £50.
Paid C Canns £62 less 5% cash discount, by cheque
Trade Expenses £15
Brought in further Capital by cheque £500.
Stock in Trade at 31st March £589

2 Journalize the following transactions—

Mar 1. Commenced business with cash £300
Banked the sum of £200
,, 2. Purchased goods for cash £50
Purchased goods on credit from H Hammond £92, and subsequently paid for them less 5% on the 31st March. The payment was made by cheque.
,, 3. Sold goods for cash £12
Sold goods on credit to S. Sturgess for £14 15s and was paid for them on the 30th March by cheque less 2½% cash discount
,, 4 Purchased a motor van for £128 10s and paid by cheque
,, 5 Paid Wages £13 in cash, Rates £34, Trade Expenses £47, all in cash
,, 6. Private Drawings £16
,, 7. Received Commission £12 in cash

3. (Revision) (*From the Royal Society of Arts*)

On Jan 15th, 19—, G Dickson purchased the under-mentioned goods from A. Harmony:—3 H M V. 10 inch Bank records at 3s 6d each, 4 Vocal 12 inch records at 8s. 6d each, 500 Duplex needles at 1s. 6d per 100, and one "Magic" Sound Box at 30s., the whole subject to 10 per cent trade discount.

Prepare the invoice which Harmony would send to Dickson and state what entries Harmony would make in his books recording the sale

QUESTIONS

1 What are the advantages of double-entry book-keeping?

2 The double-entry system of book-keeping may be worked with only one subsidiary book, viz the Journal When may the principle be usually employed in retailers' account-keeping?

3 Name some of the advantages of subsidiary books for ordinary working over the single Journal method

4 How is the principle of double entry maintained in modern Sales and Purchases Books?

5 Contrast the different methods of preparing a Trial Balance

CHAPTER XI

INTERMEDIATE JOURNAL ENTRIES

THE entries which are recorded in the Journal, between the opening entries and the closing entries, are of two kinds. First, there are those which are *made before* preparing the Trial Balance, to which the name of Intermediate Entries is given, whilst the entries which are *made after* the Trial Balance is prepared are called Adjusting Entries

There is no hard-and-fast rule as to when an entry should be an Intermediate one or an Adjusting one. Certainly when the Journal is being used in place of one or other of the books of original entry, as explained in the previous chapter, these entries fall naturally into the Intermediate category, but there are many others, of a more or less isolated character, which may be journalized as they occur or be held over until the time of balancing, when adjusting entries may be made in respect of them. Both in practice and examination work there is a tendency nowadays to leave many, if not all, such matters over till the Trial Balance is made out. In a business carrying a full set of subsidiary books, this would mean that there would be no intermediate entries, or at most only a few.

The following are some typical examples of isolated transactions and the principles underlying the Journal entries necessary to deal with them—

Bad Debts

1. It happens occasionally that one of the debtors becomes insolvent, and is unable to pay his debts on their due dates, and subsequently either signs a Trust Deed or becomes bankrupt, in either case only a proportion of the debt being paid. The unpaid portion in such circumstances is irrecoverable and is said to be a bad debt. The bad debt is then removed from the Debtors Ledger to a Nominal Account called "Bad Debts Account." Like the other Nominal Ledger balances the "Bad Debts Account," at the time of balancing, is written off to the Profit and Loss Account.

The Journal entry would be as follows—

Jan 8.	Bad Debts Account	*Dr*	£12	
	To S Slimen			£12
	Being balance after receipt of first and final dividend of 5s. per £ on debt of £16			

Subsequent payments of debts previously written off as bad are credited to the Bad Debts Account, direct from the Cash Book

Depreciation

2. Despite careful repair so-called permanent assets, such as buildings, fixtures, plant, etc., gradually wear out or become less valuable. To this reduction the name of *Depreciation* is given. The amount of depreciation is calculated each year, so that the various periods may share proportionally the loss due to this cause. The cost, and the residual or scrap value, have to be taken into account, as well as possible obsolescence, i e. the possibility of the asset being out of date and requiring replacement before it is actually worn out. A familiar example of this is to be seen in the case of motor vans, which have often to be disposed of before their useful life is over. It is just as true, however, in the case of shop window fixtures, and in shop machinery, all of which have to be replaced by more modern types if competition is to be met.

It is usual to write off retailers' fixed assets by depreciating them by a pre-determined rate per cent on the diminishing value each year—

Dec. 31	Depreciation A/c	*Dr*	£19	
	To Fixtures & Fittings A/c			£19
	10% of £190—One year			

The Depreciation Account is written off to the Profit and Loss Account whilst the Fixtures Account is correspondingly reduced. It is usual to show the actual depreciation which has been taken off each of the assets in the Balance Sheet thus—

Assets

Fixtures & Fittings .	B/f	£190	
Less depreciation		19	
			£171

The following year the depreciation will be at the rate of 10% on £171, viz. £17 2s., and so on, reducing in amount every year.

Payments to Secure a Lease

3. Where premises have been secured on a lease and a sum paid down in addition to the lease, it is usual to make a temporary asset of the sum expended to a "Leasehold Account," and to depreciate it by fixed equal annual instalments (not reducing), so that it will be cleared off over the period of the lease, e.g.—

Dec 31	Depreciation Account	*Dr*	£60	
	To Leasehold Account .			£60
	1st Annual instalment.			

Deferred Revenue Expenditure

4. Where large sums are spent on advertising or on repairs it is not unusual to find the amount being written off over two or three years, the portion not written off being named "Deferred Revenue

Expenditure," and carried forward in the Balance Sheet among the assets until written off in succeeding years.

The Journal entry is as follows—

Dec 31	Deferred Revenue Expenditure .	*Dr.*	£600	
	To Advertising A/c			£600
	Being the amount carried forward to be written off in future years			

Partners' Interest on Capital

5. A habit is gaining favour rapidly of apportioning a definite amount of the profits as interest on capital so that the profit transferred to the Capital Account is in two portions, one being regarded as interest on the capital employed and the other as net profit. To divide the profit in this way it is necessary to debit Interest Account and credit Capital Account. The Journal entry is as follows—

Dec 31	Interest-on-Capital A/c . . .	*Dr*	£300	
	To Capital A/c . .			£300
	Being Interest credited at 5% p a on £6000 capital			

The Interest-on-Capital Account is transferred to the Profit and Loss Account at balancing time. Where the business is owned jointly by persons who are called partners, and have unequal shares of the capital it is usual to arrange to charge the business with interest on Capital and to credit the Capital Account of each partner with his share of interest, e.g.

Dec 31.	Interest-on-Capital A/c .	*Dr*	£300	
	To A's Capital A/c .			£150
	To B's ,, . .			100
	To C's ,, . .			50
	5% p a. on respective Capitals			

On occasions the full profit is credited to the partners, the arrangement about the interest being an afterthought. The Journal entry made is in the nature of a correction of the previous credits, each being credited with the proper interest and debited with the *pro rata* share of the interest previously allocated, e g. if partners share equally and it is decided afterwards to give interest-on-capital first at 5% per annum and the total interest is £300, it is clear that in his share of profit each has received £100 of interest, but if the interests should have been £150, £100, and £50, the Capital Accounts will require to be adjusted thus—

A's Capital A/c	*Dr.*	£100	
B's ,, ...	*Dr*	100	
C's ,, ...	*Dr*	100	
To A's Capital A/c . .			£150
To B's ,, ...			100
To C's ,, ...			50
Adjustment on previous A/cs to give each partner 5% interest p a. on Capital.			

Partners' Interest on Drawings

Where partners withdraw unequally it is sometimes advisable to charge interest on drawings, at an average rate for the period. The partners' private Drawings Accounts are debited and Interest Account credited. The Interest Account is transferred to the *credit* of the Profit and Loss Account at balancing time. The following Journal entry creating the Interest on Drawings Account will make this point clear—

Dec 31	A's Private Drawings A/c	*Dr*	£5	
	B's „ „	*Dr*	4	
	C's „ „	*Dr*	3	
	To Interest (on Private Drawings) A/c			£12
	Being Interest charged on Private Drawings at an average of 5% p a			

Suspense Accounts

6. Where complete reliance is made on the Trial Balance and the subsidiary controls, explained in a later chapter, are not exercised, it is probable that the Trial Balance may not agree at balancing time, and the error or errors (for there may be more than one) may not come to light till a later date Although the practice is a bad one, and not to be recommended, it is usual in such circumstances to open a "Suspense Account" for the amount of the difference in the Trial Balances totals. As the errors come to light, the mistakes are rectified in the particular accounts and the contra in all cases is posted to the Suspense Account, which when all the errors have been duly rectified should total the same on both sides of the account, and it is then squared off. Some typical rectifying Journal entries are given below, and should be followed closely—

1. *An Undercast of £10 in the Sales Book*

Jan 11	Suspense A/c .	*Dr*	£10	
	To Sales A/c			£10
	Undercast rectified			

2. *An Undercast of £100 in the Purchases Book*

Jan. 11.	Purchases A/c .	*Dr*	100	
	To Suspense A/c			100
	Undercast rectified.			

3. *Discounts received in Cash Book (Discount Column) underposted by £25 to Discount A/c.*

Jan 11.	Suspense A/c .	*Dr*	25	
	To Discounts Rec'd A/c			25
	Understatement rectified			

4. *A & B. Ltd. credited with a cash payment of £31 instead of £30—1—0*

Jan. 11	A. & B Ltd	*Dr.*	19s	
	To Suspense A/c			19s.
	Rectification of wrong posting of Cash.			

Rectification of Mispostings

7. It will be remembered that when dealing with the Trial Balance it was mentioned that errors of posting to the wrong accounts would not be discovered. If errors are made in posting and discovered later, they can be rectified by means of a Journal entry. For instance assuming the sum of £20 for new office furniture is found to have been posted to Office Expense instead of to the Fixtures and Fittings Account, the Journal entry would be—

Jan. 15	Fixtures & Fittings A/c .	. *Dr.*	£20	
	To Office Expense A/c	.		£20
	Wrong posting rectified.			

These seven series of intermediate Journal entries are by no means exhaustive, but they serve to show what use may be made of the Journal so that the Ledger Accounts may exhibit properly the transactions as they have occurred. The principle of debit and credit is the same with each transaction to be made in the Ledger. To those who still find difficulty in appreciating what accounts should be debited and credited, the following rules of Ledger posting may be helpful—

Personal. Debit receivers. Credit givers.

Real. Debit acquisitions. Credit disposals.

Nominal. Debit losses. Credit gains.

Private. Debit withdrawals. Credit lodgements

EXERCISES ON CHAPTER XI

1 On the 1st January Alfred Castle, had Office Cash £69, Cash at Bank £535 7s 6d , and Stock-in-trade valued at £650 12s 6d

Debtors · F Larner £325 10s , S Sturgess £450, C Canns £265 10s

Creditors H Hammond £175 13s 4d , M Dickson £100 6s 8d , T Timms £220

Ascertain and credit the capital. Enter the following transactions in the subsidiary books, post to the Ledgers, draw out a Trial Balance, balance the accounts, and make out Final Accounts and Balance Sheet

Jan. 1. Obtained a new lease of premises for ten years on the same terms as before on a lump payment of £250, by cheque. Write off £2 1s 8d for the month's instalment, and carry forward the balance Received cheque from L. Larner £315 5s Discount £10 5s.

,, 2 Charged S Sturgess Interest on his account, £3 15s

,, 3. S Sturgess bought goods £215 7s 6d

,, 4 Paid Wages in cash £8 7s 6d Bought Fixtures for cheque £100

,, 5 Sales to L Larner £180 12s 6d

,, 7. Received cheque from S Sturgess £453 15s.

,, 8. Paid Electric A/c in cash £7 10s

,, 9. Received cheque from F Larner £177 12s 6d. Discount £3.

,, 10. C. Canns signs a Trust Deed and the trustee pays in full discharge of the debt £232 6s. 3d. The balance of £33 3s 9d. is to be written off as a bad debt

Jan 11 Paid to H. Hammond cheque £171 6s 8d Discount £4 6s 8d
,, 13. F Larner purchases goods £190 10s 6d
,, 14 Received cheque from S Sturgess £107 13s 9d
,, 15 H Hammond sold goods to us £150 7s 6d
,, 16 Banked £20
,, 17 Purchases from H Hammond £275 17s 6d
,, 18 Paid Wages £10 7s 6d
,, 20 Drew a cheque for M Dickson £97 3s 4d Discount £3 3s 4d
,, 21 Received a cheque for counter sale £80 6s 8d
,, 22 Drew a cheque for H. Hammond £147 10s Discount allowed £2 17s 6d
,, 23 Purchases from M Dickson £180 10s 6d
Sales to L Liveson £270 15s
,, 24 Received a cheque for a bad debt written off last year £32
,, 25 Sold to T Timms, on credit £112 12s 6d Note this person has also an account in the Creditors Ledger
Received cheque from L Liveson £135 7s 6d
,, 27 Paid Insurance in cash £4 18s
,, 28 Drew a cheque for T Timms £104 10s Discount £3 2s 6d
,, 29 Bought goods from T Timms £265 12s 6d
,, 30 Withdrew from bank £35 and paid Office Salaries
,, 31 Private Drawings £25
Interest on Capital £7 10s
Stock-in-Trade at date £606 9s 6d
Depreciate Fixtures £8 6s 8d

2 A B & C are partners with capital of £6000, £3000, and £1000, respectively. They share profits equally, but after this has been done for the previous year they agree to a retrospective alteration, giving each partner 5 per cent interest on his capital, before the division of the profit Make the Journal entry for the amendment The profit divided last year was £1000.

3 (*From the Royal Society of Arts.*)
The following errors were made in the books of A B Give the entries necessary to correct them—

(*a*) Goods £16 8s 10d sold to B. Brown were posted to the debit of R. Brown's A/c.

(*b*) Cash discount £1 19s. 8d. was allowed to C McArthur, and was credited to his account but no entry made in the Cash Book.

(*c*) The additions of the Sales Book were undercast for the month of May by £100

QUESTIONS

1 Define "Intermediate Journal Entries"

2. When will it be necessary to write off part of any personal account? Say how this should be done

3 Explain the meaning of the term "depreciation" How is it provided for in the books?

4. What is "deferred revenue expenditure"? Give an example.

5. Interest on capital is sometimes credited to the various partners. Give the reason. If it is decided that partners must pay interest on their private drawings how is this done?

6 Where it is not possible to obtain a correct Trial Balance before preparing the final accounts, what procedure is necessary?

CHAPTER XII

JOURNAL ADJUSTING ENTRIES

It is fundamental in double-entry book-keeping that no entry be made in the Ledger without a detailed record being made in one of the books of original entry. Where the transactions are isolated or insufficiently numerous to warrant a complete subsidiary book, the Journal (intermediate entries) may be used. As each Journal entry is dual in its nature, it follows there are compensatory postings in the Ledgers. The discussion of this point in the previous chapter led to the statement that many of the isolated intermediate entries in retail business were not made until the Trial Balance had been prepared, when they were named "Adjusting Entries."

Adjusting entries are made and posted in exactly the same way as the intermediate ones, but in exercise work or examinations it is usual to write up the two "final accounts" and "Balance Sheet" from the Trial Balance. In such circumstances a little confusion may arise on account of the adjustments. The student must remember that neither of the sides of the entry has been posted before making the Trial Balance, and that therefore two adjustments are necessary for each entry. In intermediate entries the postings have been made before the balance and the accounts in consequence are already adjusted.

It will be remembered that the final stock-in-trade is in the same category as an adjustment and the closing entry which introduces the stock to the financial books, not only debits Stock Account, which is brought down as a Real Account balance and shown as an Asset in the Balance Sheet, but it also credits the Trading Account.

Adjusting entries are much more numerous in factory than in retail accounting, but the general principles remain the same. The underlying idea is to adjust the Nominal Accounts, so that the balances when transferred to the final accounts will reflect the proper charges for the particular period. The balances remaining will also be affected and the Balance Sheet will in consequence present a truer picture of the financial position than it would do otherwise.

As an example, it may be pointed out that fixed assets such as plant, fixtures, etc., which are properly depreciated by periodic charges to the Profit and Loss Account, show in the Balance Sheet at their correct value. If the Balance Sheet be examined further, it will be seen that there are other items capable of adjustment. For instance, the item of Sundry Debtors may include some debts about which there is a doubt whether they can be collected. A reserve

may be made for the doubtful debts by an adjusting entry, debiting "Doubtful Debts Account" (Nominal) and crediting "Doubtful Debts Reserve" (Real).

The Nominal Account is written off to the Profit and Loss Account, and the Doubtful Debts Reserve Account is carried to the Balance Sheet, where it is subtracted from the Sundry Debtors.

Reserve for Doubtful Debts

The old reserve is credited and the new reserve is debited to the profits each year, the net effect being that the charge to the profits each year is only the increase in the reserve over the previous period. Indeed if the new reserve is lower than the last one there will be a balance of credit to the Profit and Loss Account.

The following examples will show how the entries are made—

1st Year Debtors	£4000	Reserve to be	£100
2nd ,, ,,	6000	,, ,,	125
3rd ,, ,,	2000	,, ,,	50

JOURNAL ENTRIES

1st Year	Doubtful Debts A/c	*Dr*	£100	
	To Doubtful Debts Reserve			£100
	2½% on £4000			
2nd Year	Doubtful Debts A/c	*Dr.*	25	
	To Doubtful Debts Reserve			25
	2½% on £6000 New Reserve . £125 Less Old Reserve . 100 £25			
3rd Year	Doubtful Debts Reserve A/c	*Dr.*	75	
	To Doubtful Debts A/c			75
	2½% on £2000 New Reserve . . £50 Old Reserve . . 125 £75 Credit			

Some firms debit their bad debts to the Doubtful Debts Reserve Account to save the necessity of opening a Bad Debts Account in the Nominal Ledger. When this is done the total bad debts for the period are transferred from this account to the Profit and Loss Account at the balancing time.

Reserve for Debtors' Discounts

In addition to Reserve for Doubtful Debts, similar provision may be made for cash discounts which it expected the debtors may claim. The Nominal Account in this case is named "Provision for Debtors' Discount A/c." and the Real Ledger Account, "Debtors' Discount Reserve A/c." Like the case of the doubtful debts, only

the difference between the old reserve and the new one is debited to the "Provision for Discount Account" in the Nominal Ledger, whilst the case of a reduced balance requires a credit to the Provision Account. *If the calculation of the reserve is on a percentage of debtors basis, the amount of the doubtful debts reserve must first be deducted.* The Balance Sheet appears as under—

Sundry Debtors on open A/cs	£4000	
Less Doubtful Debts Reserve	100	
	3900	
Less Debtors Discount Reserve	195	
		£3705

The following is a typical adjusting entry—

Provision for Debtors' Discount		£95	
To Debtors' Discount Reserve			£95
5% on £3900			
New reserve	£195		
Less Old reserve	£100		
	£95		

Reserve for Creditors' Discounts

Exactly opposite entries of an adjusting nature may be made for the cash discounts expected to be received from trade creditors. The "Provision for Creditors' Cash Discount Account" is consequently a credit balance and is transferred to the credit of the Profit and Loss Account As in the other cases, only the differences in the balances between the periods is credited each period. Should a drop in the reserve occur the Provision Account would require to be debited.

The following is an example of a Creditors' Discount Reserve Account, showing an increase in the first year and a drop in the third year—

1st Year.	To Provision A/c		£60	By Balance	c/d	£60
2nd Year	To Balance	b/d	£60	By Balance	c/d	£90
	To Provision A/c		30			
3rd Year.	To Balance	b/d	£90	By Provision A/c		£35
				By Balance	c/d	55
4th Year	To Balance	b/d	£55			

In the Balance Sheet the Reserve Account balance is subtracted from the Sundry Creditors.

Accrued Items

Most of the other adjustments in retail accounting may be classed as accruals or prepayments. Both are usually recorded by *introducing balances* to the relative nominal accounts, these being carried forward to the Balance Sheet. Accruals are entered under the Sundry Creditors, and Prepayments under the Debtors in the Balance Sheet. Little difficulty will be experienced in framing these entries once the principle is understood. If, for example, the previous six months' rent was due but unpaid at balancing time, the Nominal Account in the Trial Balance will record only six months' rent.

Obviously this would not be a correct transfer to the Profit and Loss Account, so an adjustment would be necessary, e.g.—

Rent A/c (Unpaid)	*Dr*	£40	
Rent (Accrued) A/c			£40
Reserve created for rent due			

Accrued items of any kind may be dealt with in the same way. It is often found that salaries, income tax and interest charges are due but unpaid, and require adjustment in this way. Where there are previous reserves for these items, then it is the difference which is brought into account. (See remarks under Doubtful Debts and Discounts Reserves.)

Prepaid Items

Rates and insurances are frequently prepaid and if the whole of the debit in the Nominal Account be transferred to the Profit and Loss Account the position would be wrongly stated. The amount prepaid is therefore credited to the Nominal Account concerned, and debited as a *prepaid balance* to this same account. As an outstanding balance it is transferred to the Balance Sheet, whilst the true amount is debited to the Profit and Loss Account. Again, it is necessary to watch for a previous prepaid balance brought down, for it is only the difference in the amounts which will be affected in the Profit and Loss Account. The following is an example of a typical Rates Account—

Jan. 1.	To Balance (Prepaid) b/f	£50	Dec. 31.	By P & L A/c . .	£98
June 30.	,, Cash . .	48	,, ,,	,, Balance (Unexpired) . .	48
Dec. 31.	,, Cash . .	48			
		£146			£146
Jan 1.	To Balance (Prepaid)	48			

In the above example it has been assumed that the whole of the second moiety has been prepaid. (Cash payment Dec. 31.)

The following examples of an adjusted Profit and Loss Account, and the Balance Sheet incorporating the adjustments, will make it clear how the Journal entries are given effect to.

(It is assumed that Journal entries exist for the adjustments)

PROFIT AND LOSS ACCOUNT DEBIT SIDE

To Trade Charges		£1000
,, Bad debts	£63	
Add increase in reserve	25	
		88
,, Discounts allowed	176	
Add increase in reserve	95	
		271
,, Rent paid	125	
Add rent accrued	75	
		200
,, Income Tax paid	80	
Add income tax due but unpaid	60	
		140
,, Electric A/cs paid	10	
Add electric a/cs due	2	
		12
,, Rates paid	96	
Add amount prepaid at 1st Jan	50	
	146	
Deduct amount prepaid at 31st Dec	48	
		98
,, Advertising paid	300	
Carried forward as deferred	200	
		100
,, Depreciation —		
Fixtures and Fittings	55	
Plant & Machinery	45	
		100
,, Balance (Net Profit)		421
		£2430

PROFIT AND LOSS ACCOUNT CREDIT SIDE

By Balance (Gross Profit) b/f		£2000
,, Discounts received	£400	
Add increase in reserve	30	
		430
		£2430

ADJUSTED BALANCE SHEET ASSETS SIDE

Cash	£83	
Bank	650	
		£733
Debtors: On Trade A/cs	6000	
Less reserve for doubtful debts	125	
	5875	
Less reserve for discounts	195	
		5680
Prepaid items—		
Deferred revenue expenditure	200	
Rates A/c	48	
		248
Stock-in-trade		2000
Fixtures and Fittings	1100	
Less depreciation	55	
		1045
Plant and Machinery	450	
Less Depreciation	45	
		405
		£10,111

ADJUSTED BALANCE SHEET LIABILITIES SIDE

Sundry Creditors on Trade A/cs	£2100	
Less reserve for discounts	50	
		£2050
Accrued items reserve:		
Rent	75	
Income Tax	60	
Electric A/c	2	
		137
Capital A/c		7924
		£10,111

EXERCISES ON CHAPTER XII

1 (*From the Institute of Certificated Grocers*)

The accounts of N Morgan Ltd are prepared half-yearly The Trial Balance at Dec 31 last, showed Office Furniture £130 This account has been regularly depreciated each half year at 10 per cent per annum. This half year it has also been reduced on September 30 by the sale of a typewriter for £5, which was purchased on June 30 last year for £25. Prepare the Office Furniture A/c and write off (1) depreciation for the half year and (2) the loss on the sale of the typewriter

2 (*From the Institute of Certificated Grocers*)

From the following information write up the Reserve for Bad Debts Account and show the corresponding entries in the Profit and Loss Account. Pass

appropriate entries through the Journal. The Reserve for Bad Debts Account is to be balanced at December 31 each year

Balance January 1, 1932 .	£65
Bad Debts written off during the year . .	43
Sundry Debtors Dec 31, 1932 . .	1541
Bad Debts written off during 1933 .	27
Bad Debts recovered during 1933 . .	15
Sundry Debtors Dec 31, 1933 .	1353

Annual Reserve to be calculated at 5% of Sundry Debtors

3 (*From the Institute of Certificated Grocers*)

A J Arnold's position on Jan 1, 1933, was as follows—

Assets Cash at Bank £132 5s 9d, Cash in Hand £8 1s 6d, Stock £181 19s 4d, Furniture & Fittings £120, Sundry Debtors £57 15s 3d.

Liabilities F Brown £21 4s 1d, W Hill £37 8s 9d, D Noble £45 17s 6d

His transactions for the month were as follows—

1933

Jan 2 Drew from Bank £15.

,, 4 Bought goods for cash £12 10s

,, 5 Purchased goods on credit from F Brown £17 8s 6d

,, 6. Cash Sales for the week £38 17s 4d Paid Wages £3 17s. 6d. Banked £30

,, 10. Settled Noble's A/c by cheque, less 5% cash discount.

,, 10 Cash rec. from Sundry Debtors £21 19s 5d.

,, 11. Bought goods for cash £4 5s 8d

,, 13. Cash Sales for week £35 1s 11d Paid Wages £2 7s. 6d. Drawings, cash, £5

,, 13 Cheque for goods £42 3s 4d.

,, 17 Cheque to F Brown £21 4s 1d Paid into Bank £55

,, 19 Cheque for stationery £7 13s 5d Cash recd. from Sundry Debtors £10 4s 5d

Bought from D Noble, on credit, goods, £47 6s 1d less trade discount

,, 20 Cash sales for the week £37 4s 3d Paid Wages £2 7s 6d Banked £25.

,, 23. Settled W Hill's A/c by cheque less 2½% cash discount.

,, 25. Drew cheque for self £10.

,, 27 Bought goods for cash £3 19s 9d Cash sales for week £32 7s. 5d. Paid wages £2 7s 6d. Banked £35

,, 31 Paid cash—Trade Expenses £5 14s 4d Paid rent by cheque £8 10s Credit sales for month £27 3s 1d.

,, 31 Stock-on-hand £169 14s 8d.

Reserve for gas and electric (one month) £4 14s 7d.

Enter the above transactions in the proper books, using the Journal for the opening entry, post to the Ledger, prepare Trial Balance, and Trading and Profit and Loss Account for the month of January, 1933, and Balance Sheet as at January 31, 1933

(*Note that it will only be necessary to open a Sundries A/c in the Debtors Ledger as no details are given*)

QUESTIONS

1 Explain how specific reserves may be formed for the following items—

(*a*) Doubtful debts

(*b*) Cash discounts to be received from Creditors.

(*c*) Cash discounts to be allowed to Debtors

(*d*) Accrued Rent

(*e*) Prepaid items, Taxes, Insurance, etc.

2. The boy messenger of a business house accidentally injures a person with his cycle The firm is not insured and is expected to be liable for the sum of £50. No payment has been made at the end of the year, which is the 31st Dec. Make a specific reserve for the expected loss (Journal entry only) Show how the reserve will appear on the Balance Sheet

3. (*From the Institute of Certificated Grocers*)

(*a*) Why are Nominal Accounts kept?

(*b*) What are advantages of Double-entry Book-keeping?

(*c*) What rules will assist you in posting (*a*) Personal Accounts, and (*b*) Nominal Accounts, correctly?

(*d*) On which side of a Balance Sheet are the assets and liabilities respectively shown?

(*e*) How is provision for doubtful debts made?

CHAPTER XIII

PARTNERSHIP

PARTNERSHIP is said to be the relationship subsisting between persons carrying on business in common, with a view to profit. Any number between two and twenty is permissible in the retail trade.

The book-keeping is largely the same as for a sole trader, i.e. a one-man business, the difference being solely due to the necessity of distinguishing the different capitals and the share of profit.

Separate Capital Accounts are opened for each partner and also separate Private Drawings Accounts. The net profit is divided between the partners in a pre-determined ratio, in a footnote of the Profit and Loss Account, thus—

To A's Capital A/c ¾ share . .	. £750		By Net Profit . . b/d	£1000
To B's Capital A/c ¼ share . .	250			
		£1000		

Should the partners receive interest on capital (see the chapter on Intermediate Journal Entries), the Profit and Loss Account is debited and the respective Capital Accounts credited. Private drawings are usually taken out in anticipation of profits either as weekly salaries, or as goods out of Stock, or in irregular amounts as the need arises. All these drawings are debited to the respective Private Drawings Accounts; also interest on the Private Drawings, if this is desired. The latter interest (as was explained in Chapter XI) is credited to the P. & L. A/c.

In a partnership it is therefore necessary to know—

1. The respective capitals of the partners.
2. The ratio in which the profits or losses are to be shared. (If it is not stated otherwise, then the profits are divided equally.)
3. The percentage (if any) of interest to be credited before division of profits.
4. The private drawings (salaries, cash or goods) of each of the partners. Goods are usually priced at cost.
5. The percentage (if any) of interest to be charged to the partners on their private drawings.

The following example will illustrate the work involved—

A & B as partners in a drapery business have capital as follows: A has £4000, and B has £2000. The net divisible profit for the year is £1500 after debiting the Profit and Loss Account with interest on capital at the rate of 5% per annum, and crediting the Profit and

Loss Account with interest on drawings at an average rate of 5 per cent. Partners' Drawing for the year were A, £400, B, £600. A receives two-thirds share of the profit and B one-third.

Dr. A's CAPITAL ACCOUNT *Cr*

Dec 31	To Private Drawings A/c		£400	Jan 1	By Balance	b/f	£4000
" 31	" Interest on do		20	Dec 31	" Int on Cap		200
" 31	" Balance	c/d	4780	" 31	" P & L A/c (net profit)		1000
			£5200				£5200
				Jan 1	By Balance	b/d	4780

Dr B's CAPITAL ACCOUNT *Cr*

Dec 31	To Private Drawings A/c		£600	Jan 1	By Balance	b/f	£2000
" 31	" Interest on do		30	Dec 31	" Int on Cap		100
" 31	" Balance	c/d	1970	" 31	" P & L A/c (N P)		500
			£2600				£2600
				Jan 1	By Balance	b/d	1970

The partners may make loans to the business, distinct from their capital, and these are credited to special Loan Accounts, which appear under the Creditors in the Balance Sheet till they are repaid. These loans usually carry interest at the rate of 5% per annum, which is either credited each year to the Loan Account or else paid out in cash. Assuming a loan by A to be £1000, and £50 Interest accrued, it would appear on the Balance Sheet as under—

Sundry Creditors—		
on trade accounts		£
on A's Loan A/c	£1000	
add interest accrued	50	
		£1050

In some firms the Capital Accounts remain fixed, unless by special addition or subtraction as may be mutually agreed. In such cases the Private Drawings Accounts, the Interest on Capital Accounts and Interest on Drawings Accounts, are all superseded by a "Current Account" for each partner, which combines these three former accounts and also the shares of profit. The Balance Sheet shows both the Capital Accounts and the balances of the Current Accounts, as follows—

Liabilities Side of Balance Sheet

Capital Accounts (fixed)—		
A	£4000	
B	3000	
C	2000	
		£9000

Current Accounts—		
A	£150	
B	13	
C	212	
		£375

EXERCISES ON CHAPTER XIII

1 (*From the Royal Society of Arts—adapted*)

The following Trial Balance was extracted from the books of Messrs Angus MacAdam & John Westrum as on 31st Dec 19—

TRIAL BALANCE

	£	s	d	£	s.	d
Angus MacAdam (Capital A/c)				6000		
John Westrum ,,				2000		
Angus MacAdam (Drawing A/c)	1000					
John Westrum ,,	300					
Land & Buildings	4960					
Plant & Machinery	1036	10				
Stock at 1st Jan	2019	3	7			
Debtors and Creditors	1596	15		1362	13	3
Reserve for Doubtful Debts				66	3	
Purchases and Sales (net)	8413	19	6	13,904	4	6
General Expenses	150	6				
Wages	2001	15	7			
Rates and Taxes	167	4	9			
Insurance	66	9	7			
Expenses (Office)	225	10	4			
Salaries (Office)	666	8				
Discount Account	39	4	1	29	18	8
Cash in Hand	64	3	8			
Cash at Bank	655	9	4			
	£23,362	19	5	£23,362	19	5

The partnership agreement provides—

1. That 5% per annum shall be allowed upon partnership capital (as a charge to the P & L A/c) and that such interest shall be credited to the Partners' Drawing Accounts

2 That a partnership salary out of the net profits (if and as made) of £300 per annum shall in the first instance be credited to Mr Westrum's Drawing Account

3. That the net profit (if any) after providing for the aforesaid partner's salary shall be divided between the partners *pro rata* to the amounts at the credit of their capital accounts, and shall be credited to their Drawing Accounts

You are required to prepare Trading & Profit and Loss Accounts for the year ended 31st Dec. 19— and a Balance Sheet as on that date, subject to the following adjustments—

Depreciation to be charged as follows—

2½% on land and buildings
10% on plant and machinery

The Reserve for Doubtful Debts to be increased to 5% on the sundry debtors. (*See also overleaf*)

The unexpired portions of the following expenses are to be carried forward—

Rates £27 1s 9d Insurance £16 7s 9d

The stock-on-hand on 31st Dec 19—. was agreed at the value of £1991 7s 6d

2 (*From the Glasgow and West of Scotland Commercial College*)

TRIAL BALANCE
from the books of Hill and Gall as at 31st December 19—.

Purchases (net)	£13,894	
Discount allowed	120	
Drawing Accounts—		
J Hill	400	
S Gall	600	
Sales (net)		£19,800
Wages and Salaries	3850	
Stock at 1st Jan 19—	2650	
Carriage Inwards	115	
Carriage Outwards	426	
Rent, Rates and Taxes	215	
Insurance	120	
Interest on Deposit Receipts		25
Interest on Bank Overdraft	2	
Capital Accounts—		
J Hill		4000
S Gall		6000
Discount Received		460
Plant and Machinery	1200	
Furniture and Fittings	220	
Motor Car	360	
Motor Expenses	104	
Telephone and Postages	50	
General Expenses	165	
Balance in Bank	2400	
Cash on Hand	10	
Sundry Creditors		3366
Sundry Debtors	6510	
Advertising	240	
	£33,651	£33,651

From the above Trial Balance and the following additional information, frame Profit and Loss Account and Balance Sheet as at 31st December 19—.

Stock at 31st December 19— valued at £5579.

Profits divisible—

J. Hill, two-thirds.
S. Gall, one-third

Provide 1 Depreciation on—

Furniture and Fittings at 5%.
Plant and Machinery at 10%.
Motor Car at 20%.

2. Interest on Capital at 5%.
3 Wages due and unpaid £20.
4. Partner's Salary—J. Hill £200.
5. Insurance prepaid £10

QUESTIONS

1. Define a partnership and state the maximum number of partners permitted by law to carry on a retail business

2 Where the partners decide that the Capital Accounts shall remain unaltered from year to year, to what special accounts are the private drawings, interest on capital, shares of profit, etc , posted? Show a specimen Balance Sheet, liabilities side, with the Capital Accounts in the usual way, and, alternatively, on the fixed capital system.

3 In a partnership what information should be available to enable the profits to be properly distributed? In the absence of an agreement how is the division made?

4 B , a partner in the firm of A B C Company, has a debit balance on his Current A/c How would this appear on the Balance Sheet?

5 How are loans by partners, as distinct from their Capital, dealt with in the books? What is the usual rate of Interest on these loans?

CHAPTER XIV

SALES AND PURCHASES RETURNS BOOKS

Two further subsidiary books will be described in this chapter Goods sold to clients on credit are occasionally returned by them as unsuitable, or an allowance is agreed to, without the actual return of the goods. In such cases (but only where the goods have been entered in the Sales Book) a *credit note* is sent to the customer. The credit note is best written in a duplicate book, the carbon copy of which is retained in the book and posted to the credit of the client's account in the Personal Ledger. The total of the credits and allowances given for the period are posted to the debit of a Returns Inwards Account in the Nominal Ledger. At balancing time the Returns Inwards Account is transferred to the Trading Account, but instead of being placed on the debit side, it is subtracted from the Sales Account on the credit side as under—

TRADING ACCOUNT. CR. SIDE

By Sales (Gross)	£10,000	
Less returns inward . .	100	
Net Sales . .		£9900

In exercise work it is usual to write up the Returns Inwards Book, in the same way as is done in Factory Accounting, with the items arranged serially—

RETURNS INWARDS BOOK

		Led Fol		
Jan 2.	Mrs Castle		£16 16 0	
	Vacuum returned .			£16 16 0
Jan. 3.	Mr. Hanover . .		1 0 0	
	Allowance for damaged carpet			1 0 0
Jan. 8.	Mr. St. David . . .		8 0	
	Fire irons returned . .			£0 8 0
	TOTAL—Returns Inwards A/c	*Dr.*		£18 4 0

On the other hand when goods have been bought on credit, returns and allowances are often necessary.

If packing cases are charged, allowance of half value is usually given if the cases are not returned; and full credit is given if the

cases are returned carriage paid. These, and all other allowances, also credits received, should be entered into a Returns Outward Book, which is written up like the Returns Inwards Book.

The items are *debited* to the respective accounts in the Creditors Ledger. The Nominal Ledger balance is transferred to the Trading Account, but instead of being shown on the credit side, it is deducted from the purchases on the debit side, thus—

TRADING ACCOUNT. DR SIDE

To Purchases (Gross) .	£8000	
Less Returns Outward . .	150	
Net Purchases		£7850

The account in the Nominal Ledger is made up in the following way—

Dr.	RETURNS OUTWARD ACCOUNT				*Cr.*
Jan. 31	To Trading A/c (closing entry)	£150	Jan 31	By Ret Out .	£150

EXERCISES ON CHAPTER XIV

I

Open and post the following balances to accounts in the Personal Ledgers at Jan 1st 19—.

Debtors—	£	s	d	Creditors—	£	s.	d.
A. Aikman . .	22	8	11	F Walker & Co	19	10	–
B Black	1	3	8	S Campbell . .	41	6	6
C Canns Ltd	14	2	6	F. Finlayson	32	6	9
M. Dickson .	18	1	3	T Timms Ltd	1	11	3
S. Sturgess & Co	16	2	9	L. Lammett .	3	5	–

The following are the details of returns and allowances during the month Prepare Returns Inward and Outward Books. Post items to the Personal Ledgers and the totals to their correct accounts in the Nominal Ledger

	Debtors' Returns and Allowances	£	s	d
Jan. 2	A Aikman was allowed for breakage under guarantee		15	–
,, 5.	B Black returned goods as being unsuitable and was allowed full credit	1	3	8
,, 9	C Canns Ltd returned empties and was allowed .		5	–
,, 10	M. Dickson agreed to accept goods received damaged on delivery on consideration of a rebate in price amounting to	1	10	–
,, 12.	S Sturgess exchanged articles purchased for cheaper style and was allowed credit		12	–
,, 16	C Canns Ltd received a credit note on proof of delivery of a wrong size of article from what had been invoiced		2	6
,, 21.	A. Aikman wrote to say that the broken part had given way again and that local repairs were necessary. He was given a credit note for . . .		12	–
,, 28.	Sent credit note to S Sturgess for returned empty .		10	–

Creditors' Returns and Allowances

			£	s	d
Jan	2	Received credit notes for returned empties as under—			
		F. Walker & Co		10	–
		F Finlayson		2	6
		T. Timms Ltd		1	6
		L Lammett		5	–
,,	8	Decided it would cost too much to return empty cases to S Campbell so deducted half value from A/c and was allowed the credit		1	–
,,	9	Received credit note from F Walker & Co for faulty goods		19	–
,,	12	Goods received from T Timms not quite as invoiced and was allowed		10	–
,,	31.	Returned faulty goods to L Lammett and was allowed	1	15	–

2 (*From the Institute of Certificated Grocers*)

The position of F Snow on Jan 1st, 1934, was as follows—

Cash at Bank £152 16s 6d, Cash in hand £1 0s 8d, Stock £269 19s 11d, Rates paid in advance £9 5s, Furniture, Fixtures, Fittings and Utensils £57 10s, Sundry Debtors £73 9s 1d, Sundry Creditors—Grocery Supply Co Ltd £41 6s 7d, F Tomkins £12 7s 11d, Gas and Electric Light—Dec quarter a/cs—£17 15s 6d

1934			£	s	d
Jan.	2	Paid F Tomkins's A/c less 5% dis for cash			
,,	4	Paid for stationery	2	4	1
,,	7	Purchased goods from the Grocery Supply Co Ltd less 3¾% trade discount	35	17	8
		Cases and tins	1	12	–
,,	7.	Cash Sales for the week	19	3	4
,,	7	Cashed cheque for petty cash	10	–	–
,,	10.	Paid the Grocery Supply Co Ltd's Dec A/c less 5% cash discount			
,,	14	Petty cash cheque	8	–	–
,,	14	Ready money sales for the week	18	15	9
,,	17	Goods from G S Co Ltd		18	4
,,	18.	Paid Electric (Dec) A/c	14	4	5
,,	18	Paid Gas (Dec.) A/c	3	11	1
,,	20	Goods from F. Tomkins, less 10% trade dis	18	7	7
		Packages		17	6
,,	20.	Returned empties to the G S Co Ltd	1	5	–
,,	21	Paid annual fire premium due Dec 25	4	7	6
,,	21	Petty Cash cheque	9	–	–
,,	21	Total cash sales for the week	19	5	8
,,	24	Returns to F. Tomkins:—			
		Goods damaged in transit	2	5	3
		Empties		15	–
,,	26	Agreed to purchase a delivery Van for £125 paid deposit	25	–	–
		(*Note—this should appear in the Balance Sheet, thus—* Motor Van . . . £125 Whereof unpaid . . 100 —— £25)			
,,	28.	Petty Cash cheque	8	15	–
,,	30.	Cash Sales	21	13	6
		Credit Sales for month	28	3	11
		Cash received from credit customers	31	11	4

Prepare opening entry open the necessary Ledger Accounts to record the above, and post the month's transactions thereto, using the proper subsidiary books for that purpose. Unless otherwise stated, (*a*) all payments are made by cheque, (*b*) all receipts are paid straight into bank, and (*c*) all purchases are on credit

(*Note—only a Sundries A/c will be necessary in the Debtors Ledger as no details are given*)

The petty cash expenditure for the month under summarized headings was as follows—

	£	s	d
Drawings	16	–	–
Wages and National Insurance	4	12	8
Postage and Sundries	1	11	9
Carriage	1	1	5
D S & Co Ltd —Account		18	4
Cash Purchases	6	4	2

(*Note—The imprest system of petty cash is evidently not in use, and as the Office Cash column is unused in the Cash Book petty cash receipts and disbursements may be entered there*)

When you have completed the above, prepare Trial Balance, Trading and Profit and Loss Account for the month of January, 1934, and Balance Sheet as at January 31, 1934, after considering the following matters Stock £248 15s 9d , Rent, per annum £78, Rates, carry forward £6 3s 4d.; Gas, and Electric reserve for one month £6.

3 (*From the Institute of Certificated Grocers*)
Briefly explain and illustrate the method you would recommend to a Retail Grocer as the most satisfactory method of keeping the accounts of his credit customers

4 (*From the Institute of Certificated Grocers*)
Journalize—

1934			£	s.	d.
Feb.	1	Write off as a bad debt the balance of J Jones's A/c	4	6	7
,,	3.	Bought Furniture and Fittings from W. Smith			
		1 Counter	17	10	–
		6 Chairs	13	10	–
,,	9.	Correct error in posting—			
		Cash received from Mrs. Brown in settlement of her account posted to Sales A/c	3	2	9

QUESTIONS

1. What are the rules of posting—
   (*a*) Inwards Returns and Allowances Book?
   (*b*) Outwards Returns and Allowances Book?

2. Assume you have returned two faulty machines to Messrs Able, Well & Co. together with an advice of dispatch (sometimes called a debit note) following upon the receipt of which this firm send a credit note for both machines at the invoice price of 32s. each less 15% trade discount, date 14 Nov. 19—. Make out the credit note and state how it would be recorded in your books.

CHAPTER XV

BANKING AND BILLS OF EXCHANGE

ACCOUNTS may be paid as follows—

(1) In cash (coin, postal orders, money orders, or bank notes).

(2) By bills of exchange (including cheques, acceptances, and promissory notes).

Cheques form by far the largest proportion of retail bills of exchange They may be said to be "demand" or "sight" bills drawn on bankers, payable to third parties Firms or persons with current accounts in banks are given cheque books. Cheques can be drawn up to the sum deposited, or favourable balance. The bank takes these cheques and pays immediately the amount of the cheque to the person named in the body of the cheque The bank recompenses itself by charging the account of the drawer with the amount.

Overdrawn accounts are not permitted unless sanction has been obtained from the bank. If a cheque is drawn on an account in which there are not sufficient funds to meet it, the bank may refuse to pay the cheque. In this case the cheque will be returned with the marking "Insufficient Funds" Bankers do not usually accept cheques which are more than three months old, as these cheques are termed "stale cheques."

The following points should be observed in regard to cheques—

1 The three parties—

The drawer—the person who draws the cheque.
The drawee—the Joint Stock Bank
The payee—the person to whom the money is to be paid

2. The amount—

The amount should be written in the body of the cheque followed by the word "sterling" It should also be written in figures.

3 Stamp Duty—

As bills of exchange payable on demand, all cheques are liable to a stamp duty of 2d and this amount is impressed on all cheques issued by the bank

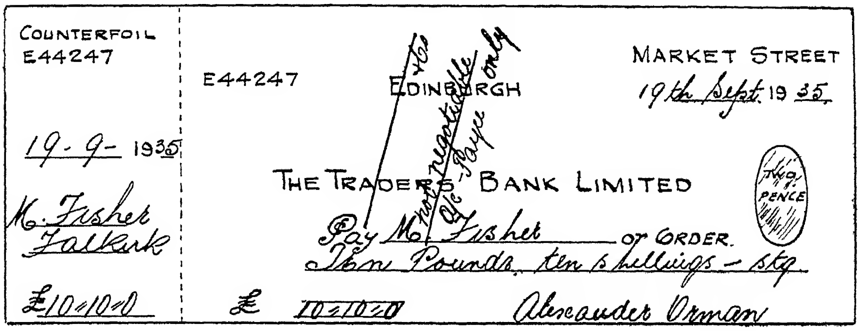
4. Counterfoil—

The date, name, and amount of each cheque should be entered on the counterfoil provided, before detaching the cheque

5. Undated cheques—

The holder of an undated cheque may insert what he believes to be the true date.

ORDER CHEQUE WITH RESTRICTIVE CROSSING



COUNTERFOIL
E44247

19-9-1935

M. Fisher
Falkirk

£10:10:0

E44247 EDINBURGH MARKET STREET
19th Sept. 1935

& Co.
not negotiable
A/c Payee only

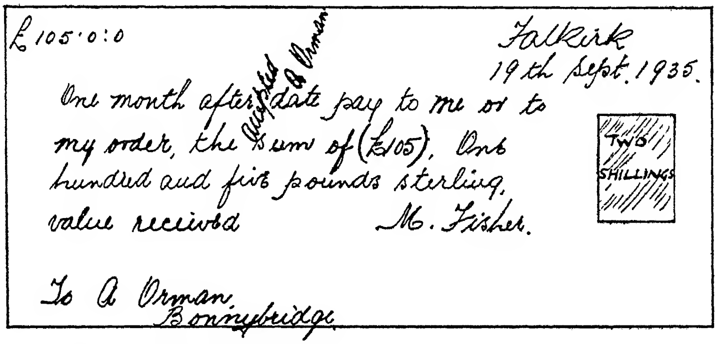
THE TRADERS' BANK LIMITED

TWO PENCE

Pay M. Fisher or ORDER.
Ten Pounds, ten shillings — stg.

£ 10:10:0 Alexander Orman

INLAND BILL OF EXCHANGE



£105:0:0

Falkirk
19th Sept. 1935.

Accepted A Orman

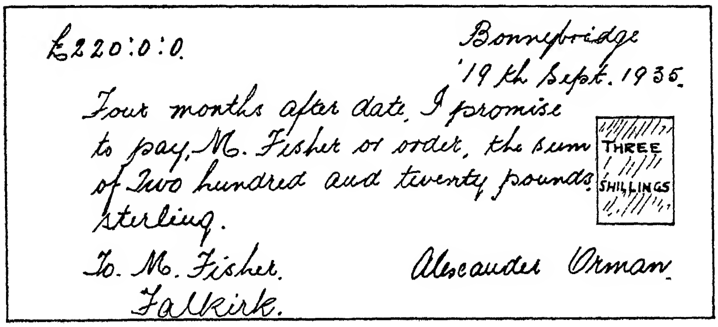
One month after date pay to me or to my order, the sum of (£105), One hundred and five pounds sterling, value received

M. Fisher.

TWO SHILLINGS

To A Orman,
Bonnybridge.

PROMISSORY NOTE



£220:0:0.

Bonnybridge
19th Sept. 1935.

Four months after date I promise to pay M. Fisher or order, the sum of Two hundred and twenty pounds sterling.

THREE SHILLINGS

To. M. Fisher.
Falkirk.

Alexander Orman.

6. Crossings (General)—

Two transverse parallel lines / / may be drawn across the face of a cheque, with or without the words "& Co" This is understood to be an instruction to the bank not to pay the cheque in cash, but to credit the amount to the account of the person in whose favour the cheque is drawn The meaning of the words "Not Negotiable," which are sometimes added, is that the holder receives no better title to the cheque than the person who gave it to him. If the cheque should be stolen, the holder is then in the position of a receiver of stolen property, and the rightful owner could claim it

7 Crossings (Special)—

Any of these four forms of general crossings may be converted to special crossings by the addition of the words "A/c Payee Only" and/or the name of the payee's bank

8. Delivery—

Cheques may pass through many hands before being presented at the bank for payment The banks issue "bearer" or "order" cheques. The "bearer" cheques are transferred by delivery, and any holder may collect from the bank "Order" cheques, however, must be signed on the back, i e endorsed by the payee, before they can be delivered. The payee can endorse specially to another person and the person named must sign his name before delivery can be made.

The method of dealing with the receipt and payment of bank cheques in the financial books was fully explained in the first chapter of the book, when dealing with the Cash Book (three-columns).

Cheques paid out are credited to the bank column. Two methods are in vogue for dealing with the receipt of bank cheques. In credit establishments and in wholesale houses, where cheques are mainly received by post, the cheques are banked on the day of receipt, and are entered in the bank column of the Cash Book on the debit side. In smaller firms it is usual to include cheques with cash, and to enter them in the cash column. They are then included with the lodgements of surplus cash.

It is not always convenient to pay accounts in cash or by cheque, owing to lack of funds in hand or at the bank, and where the creditor is unwilling to give extended credit without a definite contract to pay the sum due, Bills of Exchange are used. The bill forms are obtainable at the Inland Revenue Offices, and have impressed stamps to meet the ad valorem duty, which is as under—

Demand, Sight, or three-day Bills of Exchange (no limit of Value)		2d
Other Bills drawn, payable or endorsed in the United Kingdom.		
Where the amount does not exceed . . .	£10	2d.
Exceeds £10 but does not exceed . .	£25	3d.
" £25 " " "	£50	6d
" £50 " " " .	£75	9d.
" £75 " " " . .	£100	1s.
For every £100 and also for any fractional part of £100		1s.

In brief, the principle is easily understood. The creditor writes out instructions on the duly stamped form, to pay the sum due, either to himself or to another person, and this is sent to the debtor. The debtor signs his name on the face of the bill, usually with the word "*Accepted*" Thereafter he returns the bill of exchange to the creditor, who presents it on its due date, and the debtor should then meet the obligation. The form is known as a "*draft*" before being accepted, and afterwards as an "*acceptance*," and at all stages as a bill of exchange. The illustration shows a typical bill of exchange after it has been accepted.

Partial acceptances are common, the debtor accepting for only a portion of the sum stated, or stipulating for a change in the term, or currency of the bill, e.g. from two months to four months, or again for a change in the place of payment In book-keeping, acceptances are recorded separately from cheques. Bills of exchange, drawn by the firm, duly accepted, returned by the debtors and awaiting their due date, are termed *bills receivable*, whilst those bills which have been accepted by the firm and are due to be met by them on their due dates are termed *bills payable*.

Bills payable present little difficulty. Each bill is recorded in turn in a Bills Payable Book (see example).

The amounts so recorded are posted individually to the debits of the accounts concerned, usually in the Personal Ledgers, and the total of the book is posted to the *credit* of a *Bills Payable Account* in the Real Ledger. If the bills are met on their due date, as they should be, cash is credited in the Cash Book, and posted to the debit of the Bills Payable Account, the balance of which shows the bills outstanding for future payment. This is brought down at balancing time and shown among the Creditors in the Balance Sheet, thus—

Sundry Creditors	
On trade accounts . . .	£
On bills payable . .	£

Sometimes the bills are paid before their due date ("retired" is the technical term), when an allowance is claimed, which may be placed in the discount column of the Cash Book.

There are many points to be observed in connection with bills of exchange. The following are a few of the chief ones in connection with inland bills, which are the kind dealt with here. Foreign bills will be dealt with later.

There are three parties to a bill of exchange—

1. The creditor who draws the bill—the drawer.
2. The debtor who accepts the bill—the drawee.
3. The person who receives the money—the payee.

(Often the drawer and the payee are the same person)

The payee and any subsequent holder may dispose of the bill by writing his name on the back, which is called *endorsing*, and every

BILLS RECEIVABLE BOOK

Led Fol	No	When received	From whom received	By whom drawn	On whom drawn and where	Date	To whom payable	Time	Due	Sum	How disposed of

BILLS PAYABLE BOOK

Led Fol	No	By whom drawn and place	Date	To whom payable and place	Time	Date accepted	Due	Sum	To whom paid and date

endorser is a security for the payment. If the payee endorses the bill in favour of a particular person, his name is also written on the back.

This is a special endorsement, and the person to whom it is thus made payable (the endorsee) must also endorse under his name if he wishes to dispose of it. When there is not sufficient room for the endorsements required, a slip of paper is attached, and this is known as an *allonge*.

The term or currency of the bill is the time given for payment and varies according to the arrangement of the parties.

It is always on the bill. In addition to the term, the debtor is always given three more days in a time bill, termed *Days of Grace*, so that a two months' bill would not be due for two months and three days.

In some ways *bills receivable* are more difficult to follow in the book-keeping processes. When they have been received back accepted, they are recorded in a Bills Receivable Book (see example), and the amounts in this book are credited to the relative accounts in the Ledger, thus completing the double entry. On payment being received on the due date (prior retirals are allowed discount), cash is debited and posted to the credit of the Bills Receivable Account. The balance of this account appears under the Sundry Debtors in the Balance Sheet, thus—

Sundry Debtors	
On trade accounts . . .	£
On bills receivable . .	£

The system is a little modified if the payee finds it inconvenient to wait till *maturity* of the bill before receiving payment. He may endorse the bill to pay a debt of his own, or alternatively he can discount it at the bank or at the bill broker's. Banks, etc., are usually willing to "discount" acceptances, i.e. to give immediate cash for them at a low rate of interest (e.g. a 3 months' acceptance for £100 discounted at 6% per annum would realize £98 10s. with three months to run). The cash which is received from the bank is debited to the Cash Account and posted to the credit of the Bills Receivable Account, together with the discount charge, which is usually put in the discount column of the Cash Book. (If there are many bills discounted a separate Discount on Bills Account is raised.)

No further entries are necessary if the bills are duly paid when they are presented to the acceptor by the bank or by the last endorser on the bill. If, however, an accepted bill be refused payment, it is put into the hands of a Notary Public and *noted and protested* for non-payment. The expenses of noting, etc., are credited to cash and debited to the account of the person whose bill has not been met. The person's account is also debited with the amount

of the *dishonoured* bill. An *intermediate Journal entry* is necessary to do this, e.g.—

Jan. 3.	Billow & Co . . .	*Dr*	£120	
	To Bills Rec A/c			£120
	Bill due dishonoured.			

Where the firm has discounted the bill previously with the bank, it is the bank who will pay the noting charges, but they will immediately call on the firm who discounted it with them for both the amount of the bill and the charges. The payment to the bank will be a credit to the bank, in the Cash Book, and this entry will be posted to the debit of the person's account who refused payment

Where the bill has passed through the hands of endorsers, in case of non-payment each in turn looks to the previous endorser as his security, and will charge him with the amount of the bill, until finally the drawer of the bill pays, and his only redress is to take action against the acceptor on the strength of the acceptance. Endorsers make a Journal entry to adjust the non-payment, e g.—

Jan 8.	The Bye-Pass Co . . .	*Dr*	£60	
	Passom Light Ltd. . . .			£60
	Endorsed Bill received from the Bye-Pass Co. dishonoured after being endorsed to the Passom Light Ltd			

The following example of a bill of exchange passing through some of these vicissitudes, in the books of Reid Bros., will make the matter clear. All the entries have been journalized, instead of using subsidiary books.

Reid Bros sell £100 Goods to J. Manderson, on Jan 1.

Journal entry—

Jan 1	J Manderson . .	*Dr*	£100	
	To Sales A/c . . .			£120
	Sale of Goods			

Reid Bros draw a 3 mos Bill of Exchange & J Manderson accepts.

Journal entry—

Jan 1	Bills Receivable A/c . .	*Dr*	£100	
	To J Manderson's A/c . .			£100
	3 mos. Bill accepted.			

Reid Bros discount the Bill immediately with the Bank at 6% p a

Journal entry—

Jan. 1.	Bank A/c	*Dr*	£98–10	
	Discount A/c . . .		1–10	
	To Bills Rec A/c . .			£100
	Bill discounted			

Bill is dishonoured and the Bank charges Reid Bros with the value of the Bill and the Noting expenses, 10s.

Journal entry—

Apr 4	J Manderson's A/c	.	*Dr*	£100–10	
	To Bank A/c	.			£100–10

J Manderson pays cash to Reid Bros £50, and accepts another 3 *mos Bill for the balance of his account plus a charge of £2 for interest.*

Journal entries—

Cash A/c . . .	*Dr*	£50	
To J Manderson's A/c .	.		£50
Cash received.			
J Manderson's A/c . .	*Dr*	£2	
To Interest A/c			£2
Interest for granting second Bill.			
Bills Receivable A/c .	*Dr*	£52–10	
To J Manderson's A/c .			£52–10
Bill rec. to square Account			

The Bills of Exchange Act of 1882 defines a bill of exchange as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person or bearer

It will be seen that both bills of exchange and cheques, as they have been described, come within the legal definition. There are several differences between cheques and bills. Chiefly, cheques are not "accepted" by the banker, they are really for immediate payment and become "stale" much sooner than bills. Payment of cheques may be countermanded after issue by the drawer, and by notice to the banker of the customer's death. Unless he is prejudiced, the drawer is not discharged by undue delay in presentment.

Instead of waiting for the *draft* to come from the creditor for acceptance, the debtor may write out the bill of exchange himself, promising to pay. This form is given the special name of *promissory note*. The wording in the example should be studied. The stamp duties are the same as for bills, except that those drawn payable on demand pay the *ad valorem* duties, whereas ordinary bills of exchange "on demand" require only a twopenny stamp. Promissory notes received are included with bills receivable, and those given are written in the Bills Payable Book, and included with them.

EXERCISES ON CHAPTER XV

1. (*From the Scottish Federation of Meat Traders' Association*)

Ledger Balances of W. Strong at 31st Oct 19—, are—

	£	s	d		£	s	d
Bank Overdraft .	4	–	–	Goods in Stock . .	140	–	–
Loan from C Good .	50	–	–	Cash (on Hand). .	17	–	–
Sundry Creditors—				Fittings & Utensils .	96	–	–
Market Dealers Ltd	26	–	–	Goodwill .	80	–	–
Capital . . .	320	–	–	Sundry Debtors—			
				T Wood .	59	–	–
				D Short . .	8	–	–
	£400	–	–		£400	–	–

Write up Sales Book, Purchases Book, also Cash Book
Open Ledger A/cs direct from commencing balances
Prepare Trading, also Profit and Loss Accounts (no Trial Balance) and final Balance Sheet

November Transactions

1	Cash Sale of Goods, Lodged bank	£14
1	Bought Wrapping Paper and paid by cheque	8
1	T Wood settled his Account, cheque	59
5	Sold Goods on Credit to G May	136
5	Paid Market Dealers Ltd Account, cheque	26
5	D Short is Bankrupt, total loss, write off	8
12	Credit Purchase of Goods from Wholesale CO	44
14	Sold Goods on Credit to T. Woods	64
14	Sold Fittings for cheque	6
14	Credit Purchase of goods from Market Dealers Ltd.	36
22	G May settled his Account, cheque	136
22	Paid off G Goods' Loan cheque	50
22	Cash Sale of Goods, not lodged bank	11
22	Proprietor drew out for personal expenses, cheque	19
28	Bought Goods and paid, cash	4
30	Paid Wages £9, Petty Expenses £4	13
30	Paid Carriage (from Market) Account, Cash	3
30	New Partner came in (W. Hope), cheque	160
28	Got from T. Wood a Bill of Exchange (Receivable) for	64

Final Stocks		*Adjustments*	
Goods	£65	Reduce Goodwill by . .	£5
Wrapping Paper . .	7	Rent and Taxes due but unpaid	12

2

On the 11th November 19—. A. Carron owed M. Dorrator £500 and accepted a bill of exchange for that amount, payable in two months' time. M. Dorrator discounted the bill on the next day with the bank at 6 per cent per annum On the due date the bill was dishonoured On the 20th of next January A. Carron sent a cheque for £250 and accepted another bill for the balance, plus 10s noting charges and interest £3 10s The second bill was duly met.

Draw out the first bill, show the stamp duty, and how the bill would be accepted.

Journalize all transactions in M Dorrator's books and open A. Carron's Ledger A/c and post the above transactions.

3 (*From the Royal Society of Arts*)

On 1st January 19— D V Fleet, who is a tobacconist, possessed the following assets—

Fixtures and Fittings £372, Stock £898, Debtors· Standard Hotel Co £178 14s 2d, R Dunn £78 2s 1d, Cash at Bank £377 8s 6d, Cash in Hand £19 10s, Bill Receivable (due 6th Jan 19—) L Godiva £50

On the same date his liabilities were as follows—

Sundry Creditors· H Hicks £278 14s 6d, Universal Tobacco Co £472 12s 4d, W Stone £92 13s 1d, R Roberts (Loan Account) £500

Open the necessary accounts to record the above position, and post the following transactions through the proper subsidiary books—

Jan 2 Accepted a bill at 3 mos in favour of the Universal Tobacco Co for £400

,, 3. Purchased on credit from the Universal Tobacco Co 1 gross briar pipes at 3s 9d each less 10% trade discount

,, 4 Cash Sales to date £86 13s 4d paid into bank.

,, 5 Drew and cashed cheque for Office purposes £20
Paid in cash, Wages £3 10s, Rates £10 8s. 4d, Paper and String £3 2s 6d

,, 6 Bill Receivable due this day was duly paid into bank

,, 7 Paid H Hicks, by cheque, the amount of his account less 5 per cent cash discount

,, 9 Sold, on credit, to Standard Hotel Co, 2000 Kensitas cigarettes at 50s per 1000 less 7½ per cent trade discount. 12 boxes Larranaga Cigars at 38s 6d per box, 2 doz pipes at 7s 4d each

,, 11 Standard Hotel Co returned one box of cigars, sold them on the 9th inst as damaged

,, 12 Cash Sales to date, paid into bank, £79 8s 4d.

,, 14 Purchased, for cash, new show case for shop £12 12s
Paid, in cash, Wages £3 15s, Paper and String £1 11s 8d

,, 16 Sold on credit, to R Dunn, 1000 ½ lb packets pipe tobacco at 15s 9d. per lb less 10 per cent trade discount

,, 18 Received from R Dunn, and paid into bank, cheque on account, for £250

,, 20 Paid R Roberts, by cheque, £250 on account of loan, and £1 19s interest to date

,, 24 Cash Sales to date, paid into bank, £78 16s. 1d
Paid, in cash, Wages £3 15s

Balance the Ledger Accounts as on 24th January, and extract a Trial Balance.

N.B No Profit and Loss Account or Balance Sheet is to be prepared.

QUESTIONS

1 Define a Bill of Exchange
2. Sketch out suitable Bills Receivable and Bills Payable Books.
3 What are different means of partial acceptance?
4 State the use of an allonge How may a bill be negotiated?
5 Define a cheque, and explain general and special crossings.
6 State the parties to a Bill of Exchange
7 What are differences between a (*a*) Bill, (*b*) Cheque, and (*c*) Promissory Note?

CHAPTER XVI

ABRIDGMENTS FOR SMALL FIRMS

THE number of subsidiary books may be easily curtailed in small firms. For instance, firms who deal infrequently in acceptances can dispense with the Bill Books, while those who sell entirely for cash do not need Sales Day Books or Returns Inwards Books. Those firms purchasing for cash only may do without the Purchases Day Books or Returns Outwards Books. Even though such firms should have odd transactions of acceptances, credit sales, and credit purchases, they may be recorded by means of *intermediate entries* in the Journal.

A minimum of Journal and Cash Book is necessary as books of original entry.

The number of Ledgers may also be curtailed. A firm buying and selling for cash has no need of Personal Ledgers.

The Real Ledger and Private Ledger can usually be combined in one book, which may be used also to contain the final accounts and Balance Sheet. Frequently the Nominal Ledger is dispensed with and an analytical Cash Book substituted. The illustration on the next page shows how the analysis Cash Book is ruled to provide all the totals of the Nominal Accounts. In some firms the analysis Cash Book is used and the totals are transferred to the Nominal Ledger each month, with a view to avoiding the filling of the Ledger with detail.

EXERCISES ON CHAPTER XVI

1

Furnish a draft ruling of an analytical Cash Book, and indicate by specimen entries, and, if necessary, explanatory remarks, how this book is written up.

2 (*From the Scottish Federation of Meat Traders' Associations.*)

G Watt's Assets on the 1st December 19— were—

Cash in Bank £560 Investment £440

Make opening Journal entry and write up subsidiary books Post Ledger, and prepare Trading, also Profit and Loss Accounts No Trial Balance. Draw up final Balance Sheet

December Transactions

1	Bought Fittings and Utensils	cheque	£72
	Drew cash from bank for petty cash		24
	Purchased goods and paid	cheque	88
	Motor Van cost	cheque	160
6	Cash Sales for goods, lodged bank		99
	Sold goods on credit to F. Twist		8
	Paid wrapping paper from P. Stationer	cheque	6

Dr

COLUMNAR OR TABULAR CASH BOOK

Date	Particulars	Fol.	Discounts Allowed	Receipts		Analysis of Receipts		
				Cash	Bank	Ready Money Sales	Trade Debtors	Other Receipts

Cr

Date	Particulars	Fol	Receipt No.	Discounts Received	Payments		Analysis of Payments					
					Cash	Bank	Ready Money Purchases	Trade Creditors	Wages and Salaries	Trade Expenses	Private	Capital Purchases

December Transactions—(contd)

8	Credit purchase of goods from M Merchant		£112
10	Sold goods to Hotel Co (on credit)		124
11	Got dividend from Investment	cheque	18
17	Received Bill of Exchange at 2 months from Hotel Co		62
	Got from Hotel Co	cheque	62
	Paid Advertising A/c	cheque	3
	Paid M Merchant cheque £110, discount allowed £2		112
20	Credit purchase of goods from M Merchant		140
22	Sold goods on credit to Hotel Co		93
24	Cash Sales of goods lodged in bank		81
27	Sold Investment for	cheque	455
	Proprietor took for personal expenses	cheque	24
	Paid repair to motor		2
	F. Twist fails, A/c total loss		8
	Goods for proprietor's household, amounted to (unpaid)		9
31	Gave M Merchant on account	cheque	120
	Paid petrol actually used	cheque	1
	Paid wages, petties, including carriage, in cash		23
	Lent to S Straight the sum of	cheque	300
	Balance of hard cash was lodged in Bank		

Final Stocks

Goods	£6	Depreciate Motor by	£3
Wrappings	none	Rent and Taxes due but unpaid	9

(*NOTE: Dividend and gain on sale of investment should be carried to a footnote sub-division of the P & L. A/c, also net profit of business*)

3 (*From the Institute of Certificated Grocers*)

A Trader's Trial Balance at December 31, 19.., disclosed a difference which was posted to a Suspense Account, and the Final Accounts and Balance Sheet were prepared Subsequently, however, the difference was traced to the following causes—

(1) An undercast in the Purchases Book of £10

(2) A Bad Debt of £13 4s 6d was recovered and although entered in the Cash Book had not been credited

(3) A cheque from Mrs Brown late on December 31, in settlement of her account, was entered in the Cash Book on Jan 1, of the next year, but credited to her account as December 31, and taken into account in arriving at the balance of her account The cheque was not, however, included in the cash in hand.

(*a*) Prepare Journal entry to adjust the above

(*b*) Show the Suspense Account after the above adjustments have been made.

QUESTIONS

1 Outline a simple system of book-keeping for a retail grocer whose business does not justify the employment of a cashier or book-keeper but who is too busy to devote much time to the book-keeping

(*I of C Grocers*)

2. What financial books *additional to those in use in a business doing solely a cash trade* are necessary to a business doing a retail credit and cash trade? Explain briefly the purpose of each book

3. What is the value of a tabular or columnar Cash Book?

CHAPTER XVII

CONTROL OF BANK, CASH, AND OVERDUE ACCOUNTS

Cash Control

THE best system of control of incoming cash in the form of incoming ready money sales depends on the size of the business. Small retail firms depend to a large extent on Cash Registers, particularly the receipt-delivering type of register.

In large retail shops it is usual to have controlled Cash Desks. The salesmen have duplicate counter check books, numbered numerically and serially. The top copy is perforated near the foot to form a counterfoil. When payment is made at the Cash Desk, the upper portion is receipted, and the counterfoil is detached and retained at the Cash Desk. The total of the counterfoils should agree with the cash The salesman should see the receipt in the customer's hands before handing over the purchase. An index statistician is employed to check that there are no counterfoils missing and also to analyse the Cash Sales under the different employees. To avoid collusion between the statistician and the Cash Desk it is customary to vary the member of the office staff doing the checking.

Credit sales are usually entered in quadruplicate books, the top being sent as an invoice with the goods, the second copy going to the dispatch department, the third copy to the office, while the other copy is retained in the book as a record for making-up purposes.

Bank Control

Bank control is most easily accomplished when cash received each day is banked in total, and expenses are met by Petty Cash "floats." The following is a typical Bank Pay-in Slip—

BANK PAY-IN SLIP

COUNTERFOIL								THE TRADER'S BANK LTD
19—								MARKET STREET
Large Notes				Large Notes				PAID in on A/c of .... .
Small "				Small "				. .. .
£1 B of E.				£1 B. of E.				The sum of . . . . .
10s "				10s. "				. . . . .
Silver				Silver				.. . . . . Sterling
Coppers				Coppers				By the hand of. . . .. . .
Cheques				Cheques				. . ..
								£

Occasionally it is necessary to check the Bank Book balance with the Cash Book. There will probably be a difference, due to cheques received and paid out not being through the bank at the time of balancing, and a reconciliation statement should be prepared and written on the face of the Cash Book as under—

RECONCILIATION STATEMENT

	Bank Book Balance at 31st July, 1935		£150
	Add cheques paid in, but not credited		
July 31	J Jackson	£122	
,, 31	A Mackum	33	
			155
			£305
	Less cheques issued but not presented by payees		
July 29	M Dickson	£22	
,, 29	S Sturgess . . .	100	
			122
	Balance (in agreement with Cash Book) . .		£183

There is still room for a very good system for the detection of slow payers, by which those responsible could have their attention drawn to these customers.

Where Card Ledgers are used, red and black signals are often used to show when accounts are overdue, but these Ledgers are not often favoured by retailers. The following system is both simple and successful. The book-keeper prepares a list of all accounts which have been rendered wholly or partly previously, at the beginning of each month, and deals with these as necessary. The list is prepared just before posting the monthly statements and is typed out under the following headings—

OUTSTANDING ACCOUNTS BROUGHT FORWARD

1. A/cs rendered wholly or partly, once.
2. A/cs ,, ,, ,, twice.
3. A/cs ,, ,, ,, three times.

EXERCISES ON CHAPTER XVII

1. On 28th February, 1935, the Bank Pass Book of J Reid's business showed a balance of £501 2s 6d Prepare from the following particulars a reconciliation with the balance in the Cash Book

On the 28th February, 1935, paid to bank a cheque £319 9s 9d, not credited

On the 28th February, 1935, the following cheques were drawn—

L. Liveson	£138	2	3
F. Frame	16	–	–
C Canns Ltd	12	–	–
D Dickson . .	100	–	–
M Martin	155	6	2
S Sturgess . . .	22	9	6
Withdrawn to augment Office Cash . .	12	–	–

Only the cheque for office use was entered on this date. On inquiry it was observed that the bankers had, in mistake, charged the account with a cheque for £120, drawn by J Reid out of his private account

(*Exercises* 2, 3, *and* 4 *are from the Institute of Certificated Grocers*, 1935)

NOTE to No 2. Some persons prefer to carry stock, purchases, sales and returns into one account, called a "Goods Account" The Goods Account is closed by transferring each item *individually* to a Trading Account, which is written up in the usual way

2

The following is the Goods Account of a Grocer. Make the necessary entries to transfer the Purchases and Sales respectively to the Trading Account

GOODS ACCOUNT

		£	s.	d			£	s	d.
July	To Stock on hand	671	9	3	July	By Goods .	784	1	2
	,, Goods	462	16	6		,, Credit	3	4	6
	,, Returns	2	5	7	Aug	,, Goods	527	19	7
Aug	,, Goods	587	14	2		,, Credit	4	18	2
	,, Cash Purchases	1	6	8	Sept	,, Goods	644	17	6
	,, Returns	3	17	6					
Sept	,, Goods .	312	19	7					

3

Journalize, as at December 31, 1934, as follows—

(*a*) Correct the Entry £20 Goods bought from R Raven Entered in Sales Day Book and posted to the debit of his account

(*b*) Exchanged £400 War Loan for £500 6% Debentures in the Home Trading Company, Limited, both securities being at par

(*c*) Write off the following as Bad Debts—

R Duck .	. £72
R Robin	. £12

4

Mr Jackson's position on January 1, 1935, was as follows—

Cash in Hand £10, Cash at Bank £210 2s 6d , Stock £587 16s 3d.; Counters and Scales £105, Delivery Van £65, Sundry Debtors £48 2s. 6d , Sundry Creditors "A" £58 14s 6d ; "B" £37 18s. 2d., "C" £129 17s 2d , Mortgage on Premises £500 Transactions for January were—

			£	s.	d.
Jan	1.	Mortgage repayment (cheque)	25	—	—
		Interest (cheque)	6	5	—
,,	3	Goods for cash	36	17	9
		Paid "A" cheque less discount £2 18s 9d . .	55	15	9
,,	6	Cash Sales	68	12	6
		Paid to Bank	35	—	—
,,	8	Wages (cash)	4	2	6
,,	9	Goods from "A"	62	8	6
,,	10	Paid "C" cheque on account	60	—	—
,,	11.	Paid cheque for stationery	3	2	6
,,	13.	Cash Sales	62	17	6
		Paid to Bank	30	—	—
,,	14	Credit Sales to date	84	17	6
		Cheques received from Sundry Debtors and paid into Bank	74	6	6
		Paid Cash for Sundry Expenses	3	15	9

Enter the above transactions in the proper books, post to the Ledger, and prepare Trial Balance.

QUESTIONS

1 Describe a system of cash control suitable for a large retail establishment

2 What is the best system of bank control?

3 How is it possible for a trader to make a gross profit and a net loss? State the circumstances which might produce this state of affairs

4 What kind of mistakes in book-keeping would not be revealed by the Trial Balance?

5 Define the words: Asset, Liability, Drawings Explain the difference between "Order" and "Bearer" cheques

6 What is the effect of the following words written on the face of the cheque?

(*a*) "Not Negotiable."
(*b*) "Stale"
(*c*) "Refer to drawer—Insufficient funds"
(*d*) "A/c Payee"

7 What is a post-dated cheque?

8. What does the term "Overdraft at Bank" imply?

9 For what reason is cash discount allowed?

10 What transactions ordinarily appear in the Journal?

11 Is it possible to make a net profit with no goods at the close of the year, and with an overdraft at the bank? Give a specimen set of accounts

12. What are closing entries? State why they are necessary

13. State the object of using a Drawings Account What account supersedes it when the fixed capital system is used?

14 How would you proceed to open a set of books from a given Balance Sheet?

15. Explain a Statement of Account and give an example

16. Explain the underlying principle of the Imprest system of Petty Cash "floats"

17. Give examples of Capital Purchases and say why they should not be charged to the P & L. A/c.

18 Why is it desirable to allow interest on capital to partners in a firm?

19 In what respect does stamp duty differ between Promissory Notes and Bills of Exchange?

20 When the amount of a Bills Payable is paid, the posting is to the debit of the Bills Payable A/c. Why should it not be to the account of the person to whom the money is paid?

21. Give the reason for having a reserve for doubtful debts.

22 For what reason are reserves for discounts provided?

23 How is provision made for Accrued and Outstanding Expenses?

24 State, briefly, the underlying principle of double-entry book-keeping

25. (*From the Institute of Certificated Grocers*) Explain the following terms and abbreviations—

C.I F.; Delivery Order, Folio; Bearer cheque, Solvent, R D.

26 (*From the Scottish Federation of Meat Traders' Associations*) Stock of Goods on a Monday morning £92, and on the following Saturday night £41. Purchases £109. Sales for Cash £42, on Credit £133 Annual Charges: Rent and Taxes £104; Wages and Stamps £156, Other Expenses £78

Make up above Weekly Statement and show result, i e. the amount of Profit or Loss

PART II (SECOND SESSION)

CHAPTER XVIII

HISTORY AND MODERN PRACTICE

THE art of book-keeping by double entry is thought to have been first practised in Italy. The first known treatise was published by Lucas Pacioli about the year 1495. The system was that adopted by the earliest English writers, and comprised a *Memorial* or *Waste Book*, which contained a record of all transactions, a Journal which gave to each transaction a balancing twofold entry, and a Ledger, which received the entries in summary form.

In 1796 Edward Jones wrote his English system, in an effort to discredit the Italian one, and although not successful (his workings were proved to contain an essential error), nevertheless his division of the Waste Book into Purchases and Sales Books, etc, was the beginning of the subdivided Journal, which is now generally adopted.

The Day Books were originally posted to the Journal and then into the Ledger, but to-day the Journal as an intermediary has been discarded (except in some countries), and posting is done direct from the Day Books to the Ledger, the aggregate of the postings of each book being entered on the contra side of separate accounts; thus, for example, credit sales are posted individually to the debit side of personal accounts and the aggregate postings for the period are credited to a Sales Account.

The Journal is merely used to record entries that are insufficient in number to require separate books; in most retail concerns the opening, intermediate, adjusting, and closing Journal entries are contained in a few pages.

In the chapter on "abridgments for small firms" it was shown how the subsidiary books in certain cases could be condensed into an analytical Cash Book, but as a rule the books of original entry required are Journal, Credit Sales, and Purchases Books, Returns Books, Cash Book and occasionally Bill Books, and Consignment Outward Book

These books of first entry contain the details, which are posted to the Ledgers in twofold form—for every debit there is a corresponding credit, the contra being an aggregate entry for the total of the book.

The Ledger is in five books, the Trade Debtors' and Creditors'

Ledgers being known as *Personal Ledgers*, and the others, Nominal, Real, and Private, as the *Impersonal Ledgers*, although the Private Ledger which contains the accounts of the proprietors might almost be said to be a Personal Ledger of a sort.

At balancing time the accounts in the Nominal Ledger are transferred to a Profit and Loss Account, subdivided to show a profit on cost of goods sold, termed *Gross Profit*, and the gross profit, minus the expenses incurred in trading for the year, is described as *Net Profit*, and is transferred to the credit of the Partners' Capital Accounts in due proportion.

The actual expenses incurred during the year are not always those actually paid throughout the year, as recorded in the Nominal Ledger Sometimes they are more, at other times less, as for example only one-half year's rent may be paid, although a whole year's rent be due. Adjustments are therefore made so that the Profit and Loss Account correctly records the position of each account for the year.

The Real Ledger Accounts contain the fixed and floating assets, excepting Personal Accounts. The changes in cash and bank balances are given in the Cash Book, and the beginning stock is transferred to the *debit* of the Trading Account. The new stock, at time of balancing, is substituted, the contra entry being to the *credit* of the Trading Account.

The fixed assets are carried forward each year, with proportionate reductions for depreciation. The balances of the Bills of Exchange Accounts are also carried forward, those due to be paid at a future time being bills payable, and those to be met by debtors, bills receivable; where the latter have been previously discounted, the Bills Receivable Account will of course have been correspondingly reduced.

A Final Balance Sheet is prepared, this not being an account at all but a list of the balances remaining in the Ledger after the final accounts have been prepared. If the work has been done correctly the list of property and assets should equal in value the sum of liabilities and proprietors' capital.

To check the arithmetical accuracy of the postings it is usual to prepare a Trial Balance of the accounts before forming the final accounts; balancing first the Personal Ledgers, thereafter listing debit and credit balances of all Ledgers. If double-entry principles have been properly observed the totals should agree.

A Worked Example

Such, in brief, is the work described in the first part of the book, and as a commencement of the second session an exercise from a Glasgow and West of Scotland Commercial College examination is appended together with a model solution.

Messrs A Light and B Dark are in partnership and trade under the firm name of Light, Dark, & Co The Balance Sheet of their business at 31st October, 1930, reads as follows—

ASSETS

I	Property,	£8000	
	Less—Bond	2000	
			£6000
II	Stock		1800
III	Plant		3500
IV	Debtors		3000
V	Bank		2000
VI	Cash		70
			£16,370

LIABILITIES

I	Sundry Creditors	£4770	
II	Bills payable	3200	
III	Loan	2400	
			10,370
	Surplus		£6000
	Divisible—		
	A. Light	£4000	
	B. Dark	2000	
			£6000

At 31st October, 1931, the following particulars have been ascertained—

I	For the year ended that date—	
	(*a*) Sales Day Book adds to	£30,000
	(*b*) Returns Outward Book	560
	(*c*) Purchases Day Book	19,550
	(*d*) Returns Inward Book	480
	(*e*) Discount columns in Cash Book—	
	Allowed	600
	Received	320
	(*f*) Wages paid	4900
	(*g*) Expenses paid	2930
	(*h*) Cash paid for New Plant	200
	(*i*) Cash received for sale of Old Plant	600
	(*j*) Drawings by Partners—	
	A Light	1650
	B Dark	840
II	And at 31st October, 1931—	
	Sundry Debtors amounted to	2000
	Sundry Creditors amounted to	3800
	Bills payable	2600
	Cash on hand	40

No change has taken place during the year in the amounts due on Bond and to Cash Creditors appearing in the Balance Sheet as at 31st October, 1930. You are requested to prepare a Trial Balance as at 31st October, 1931, showing the difference as money due to or by the Bank.

SOLUTION TO QUESTION

TRIAL BALANCE AS AT 31ST OCTOBER, 1931

	Debit	Credit
Property	£8000	—
Bond	—	£2000
Stock at 31st October, 1930	1800	—
[1]Plant	3500	—
Loan	—	2400
Capital—A. Light	—	4000
Do B Dark	—	2000
Sales	—	30,000
Returns Outward	—	560
Purchases	19,550	—
Returns Inward	480	—
Discount Allowed	600	—
Discount Received	—	320
Wages	4900	—
Expenses	2930	—
[1]Additions to Plant	200	—
[1]Plant realised	—	600
Drawings—A Light	1650	
Do B Dark	840	—
Sundry Debtors	2000	
Sundry Creditors	—	3800
Bills Payable	—	2600
Cash on Hand	40	—
Bank	1790	—
	£48,280	£48,280

[1]*Note*—The following Accounts, viz —

Plant Account	£3500	—
Additions to Plant	200	—
Plant realized	—	£600

could appear in the Trial Balance thus—

Plant Account	£3100

EXERCISES ON CHAPTER XVIII

I (*From the Scottish Federation of Meat Traders' Associations (Incorporated)*)

1. Undernoted is Balance Sheet of B Steel as at 31st July 19—

Liabilities		*Assets*	
Sundry Creditors		Cash on hand	£9
Meat Supply Co	£50	Cash in Bank	411
Capital	1500	Goods in stock	180
		Fittings and Utensils	120
		Building	800
		Sundry Debtors.	
		New Hotel Co Ltd	30
	£1550		£1550

Write up Cash Book and post same Open Ledger A/cs direct from commencing balances Prepare Trading also Profit and Loss A/cs (no Trial Balance) and final Balance Sheet

Transactions for week ending 7th August 19—

1	Bought and paid for wrapping paper	cheque	£7
1	New Hotel Co Ltd paid to account	cheque	25
1	Cash sales of goods	lodged Bank	33
2	Paid Meat Supply Co account	cheque	50
2	Cash sales of goods	lodged Bank	37
3	Cash sales of goods	lodged Bank	44
3	New Hotel Co Ltd has failed, balance total loss		5
4	Bought goods from and paid to Meat Supply Co	cheque	70
4	Proprietor drew out for personal expenses	cheque	21
6	Cash sales of goods (2 days)	lodged Bank	85
6	Sold Utensils (in valuation at £10) for	cheque	6
7	Settled account for carriage from market	cash	3
7	Cash sales of goods	not lodged Bank	31
7	Paid wages		11
7	Petty cash expenses for week amounted, as per pass book, to		3
7	Took over new business and paid for Fittings and Utensils	cheque	80
7	Got Deposit Receipt from Bank in exchange for	cheque	300

Taxes and light due but unpaid £2, Goods in stock £60, Wrapping paper in stock £6

Depreciate Building by the sum of £7.

2

G. Watt's assets on 1st December, 19—, were—

Cash in Bank . £560 Investment . £440

Make opening Journal entry and write up subsidiary books Post Ledger and prepare Trading, also Profit and Loss Accounts No Trial Balance Draw up final Balance Sheet

December Transactions

1	Bought Fittings and Utensils	cheque	£72
1	Drew Cash from Bank for petty cash		24
1	Purchased goods and paid	cheque	88
1	Motor Van cost	cheque	160
6	Cash sales of goods, lodged Bank		99
6	Sold goods on credit to F Twist		8
6	Paid Wrapping Paper from P. Stationer	cheque	6
8	Credit purchase of goods from M Merchant		112
10	Sold goods on credit to Hotel Co		124
11	Got Dividend from Investment	cheque	18
17	Received Bill of Exchange at 2 months from Hotel Co		62
17	Got from Hotel Co	cheque	62
17	Paid Advertising A/c	cheque	3
17	Paid M Merchant cheque £110, discount allowed £2		112
20	Credit purchase of goods from M Merchant		140
22	Sold goods on credit to Hotel Co.		93
24	Cash sales of goods lodged Bank		81
27	Sold Investment for	cheque	455
27	Proprietor took for personal expenses	cheque	24
27	Paid repair to motor	cheque	2
27	Goods for proprietor's household amounted to (unpaid)		9
27	F. Twist fails, A/c total loss		8
31	Paid Petrol, actually used	cheque	1

December Transactions—(contd)

31	Paid Wages, petties, including carriage, in cash		£27
31	Gave M Merchant on account	cheque	102
31	Lent to S Straight the sum of	cheque	200
31	Balance of hard cash was lodged in Bank		

FINAL STOCKS

Goods	£6	Depreciate Motor by	£3
Wrappings	10	Rent and Taxes due but unpaid	9

(95 Marks)

Question

Define (no figures) Gross Profit, also Net Profit in fewest possible words

(5 Marks)

3.

Balance Sheet of William Hope as at 28th Feb, 19—

LIABILITIES		ASSETS	
Sundry Creditors—		Fittings & Utensils	£72
G. Ross	£40	Goods in stock	108
N Hill	80	*Sundry Debtors*—	
Capital	480	T. Dale	66
		W Brown	50
		S Kemp	8
		Cash in Bank	296
	£600		£600

Write up necessary books and post Ledger therefrom In this case open Ledger A/cs direct from above Balance Sheet Prepare Trading also Profit & Loss A/cs (no Trial Balance) and draw up final Balance Sheet

Transactions for March

1	Sold Goods for	cash	£9
1	Paid Insurance till 31st March	cash	1
1	Paid to N Hill £76, disct £4	cheque	80
8	Sold Goods on credit to W Brown		104
8	Recd from S Kemp	cheque	6
8	Bought Goods on credit from G Ross		149
15	Recd. from T Dale	cheque	66
15	Sold Utensils	cheque	4
15	Bought Goods on credit from N Hill		170
15	Recd. from W Brown to account	cheque	124
22	Sold Goods on credit to T Dale		356
22	Bought Goods for	cash	4
22	Proprietor took Goods for own use		11
29	Paid to G. Ross	cheque	189
29	Paid extra Fittings, *an addition*	cheque	12
29	Drew Cash from Bank		27
31	Write off S Kemp's balance as Bad Debt		
31	Proprietor drew for personal expenses	cheque	15
31	Bought Motor Van	cheque	90
31	Paid Rent & Taxes to date	cash	6
31	Petty Expenses including Carriage duly paid	cash	8
31	Paid Wages	cash	17

Final stock of Goods £20 Allow Interest at rate of 5% *per annum* on Proprietor's Capital.

(97 marks)

Question

Stock of Goods on a Monday morning £92, and on the following Saturday night £41. Purchases £109 Sales for Cash £42, on Credit £133.

ANNUAL CHARGES—

Rent and Taxes £104 Wages and Stamps £156 Other Expenses £78

Make up above Weekly Statement and show result, i e the amount of Profit or Loss

(3 Marks)

4

The Ledger balances of Geo Merry on 30th April, 19—, were—

Bank Overdraft	£12	Goods in stock	£190
Sundry Creditors—		Petrol in stock	3
S Bone	52	Fittings and Utensils	68
W Peel	14	Motor Van	120
Capital	400	*Sundry Debtors*—	
		M Lyle	88
		T Wade	9
	£478		£478

Write up subsidiary books *Do not* make opening Journal entry, but open Ledger Accounts *direct* from commencing balances Prepare Trading, also Profit and Loss Accounts (no Trial Balance), and draw up final Balance Sheet.

Transactions for May

1	New partner (Chas Brown) lodged as Capital	(cheque)	£400
2	Drew from Bank for petty cash		11
2	Paid for Wrapping Paper	(cheque)	6
7	Sold Goods on credit to M Lyle		219
7	T Wade failed, *settlement at* 6s 8d *per* £1	(cheque)	3
7	C. Brown took Goods for household use (not paid)		7
12	Bought Goods on credit from W Peel		270
12	Cash purchase of Goods		8
12	Paid Motor Repairs	(cheque)	2
20	Got Bill Receivable at 2 months from M Lyle		307
20	Sold Goods on credit to A. Inglis		314
20	Paid W Peel's Account, cheque, £270, quick discount £14		284
20	Credit purchase of Goods from S Bone		33
20	Got from A Inglis to Account	(cheque)	100
29	Sold Goods for cash (not lodged Bank)		28
29	Paid Account to S Bone	(cheque)	52
29	G Merry took for personal expenses	(cheque)	16
30	Paid Carriage, £4, Wages, £15, Petty Expenses, £3	(cash)	22

Final Stocks		*Final Adjustments*	
Goods	£44	Reduce Motor Value by	£1
Wrappings	4	Create Bad Debt Reserve of	30
Petrol	none	Rent and Taxes due	9

CHAPTER XIX

CAPITAL AND REVENUE

THE word *revenue*, which means income, is used in book-keeping as a contra-distinctive term to the *capital of a business* which is the sum total of the assets, i.e. the whole property and possessions of the firm.

The capital of a business should not be confused with other forms of capital, such as the *proprietor's capital*, which is the surplus of assets over liabilities, or *deficiency of capital*, where the liabilities exceed the assets. The *fixed capital* comprises all the fixed or permanent assets, and the *floating capital*, all the circulating assets The *working capital* is variously described as the excess of floating assets over floating liabilities and also as the amount of capital left to run a new business after the cost of the fixed assets has been met.

It is fundamental in double-entry book-keeping to apportion the capital and revenue receipts and expenditure, in a proper manner. The Trial Balance will not reveal mispostings to the wrong accounts and the utmost care is therefore necessary, for failure will falsify the whole results.

Capital expenditure is the term used to cover all expenditure incurred in acquiring permanent assets, not for resale, but for the purpose of earning income; for example, land and buildings, fixtures and additions thereto, machinery, and motor vans.

Revenue expenditure covers all repairs, and upkeep of the permanent assets, including charges for depreciation, and all current expenses of carrying on the business, e.g. rent, rates, taxes, wages, carriage, insurance, and all trade expenses Sometimes the amount spent on revenue items in one year may properly be chargeable over a few years, as in the case of certain forms of advertising. The amount carried over to succeeding years is termed *deferred revenue expenditure* and included with the assets. Partners' drawings are *not* revenue expenditure, but appropriations of capital. The following list will further illustrate the distinction—

Purchase of Land	Capital
Purchase of Freehold or Leasehold Property	Capital
Annual Ground Rent or Feu Duty	Revenue
Amounts written off Land or Property	Revenue
Purchase of Plant or Fixtures	Capital
Annual Depreciation of same	Revenue
Purchase of Motor Van	Capital
Annual Depreciation of same	Revenue
Loss on Sale of same	Revenue
Legal Expenses in purchasing property (included in cost of property)	Capital
Legal Expenses in collecting debts	Revenue

In further illustration, there is given hereunder a typical Trial Balance (adapted from a Glasgow and West of Scotland examination), together with model solution, which should be studied carefully.

The following is the Trial Balance extracted from the books of the South Side Retailing Company, Glasgow, at 31st March, 1931—

Creditors	—	£1840
Bank	£547	
Returns Inward	327	
Patterns	1888	
Bills Payable	—	500
Debtors	2100	
Loan	200	
Stock at 1st April, 1930	1101	—
Capital at 1st April, 1930— Carl Nott	—	5000
Purchases	8677	—
Wages	1545	—
Charges, Insurances, Interest, &c	925	—
Discount	70	—
Fixtures	3273	—
Cash	32	—
Sales	—	14,222
Fixtures additions	127	—
Drawings— Carl Nott	750	—
	£21,562	£21,562

You are informed—

(*a*) The Stock at 31st March, 1931, amounts to £1336

(*b*) Interest has to be allowed on commencing Capital at 5 per cent

(*c*) Fixtures, including additions, to be depreciated 10 per cent, and 50 per cent to be written off Deferred Revenue Expenditure

(*d*) Estimated discount to be provided on Debtors at 5 per cent.

(*e*) Interest on the Loan Account shown in the Trial Balance is in arrear at 31st March, 1931, to the extent of £30.

Frame Balance Sheet as at 31st March, 1931, with relative Trading and Profit and Loss Accounts for the year ended that date

Model Solution

Trading Account

South Side Retailing Company — For Year Ended 31st March, 1931

Dr						*Cr*
1931 M rch 31	To Purchases,	£8677	1931 March 31	By Sales,	£14,222	
	Add—Stock at 1st April, 1930,	1101		*Less*—Returns Inward,	327	£13,895
		£9778				
	Less—Stock, at 31st March, 1931,	1336				
		£8442				
	Balance to Profit and Loss, being Gross Profit,	5453				
		£13,895				£13,895

Profit and Loss Account

South Side Retailing Company — For Year Ended 31st March, 1931

Dr			Cr		
1931. March 31	To Wages	£1,545	1931 March 31	By Trading Account	£5,453
	,, Charges, Insurance, Interest, &c.	895			
	,, Discount	175			
	,, Depreciation, etc	1,284			
	,, Interest on Capital	250			
	,, Balance, being net Profit transferred to Capital	1,304			
		£5,453			£5,453

Balance Sheet

South Side Retailing Company — As at 31st March, 1931

Liabilities			Assets		
I Sundry Creditors—			I Fixtures	£3273	
On Open Account	£1840		*Add*—Additions during year	127	
On Bill Payable	500			3400	
		£2340	*Less*—Depreciation at 10 per cent	340	
II Capital Account—					£3060
Carl Nott—			II. Deferred Revenue Expenditure	£1888	
As at 1st May, 1930	£5000		*Less*—Depreciation at 50 per cent	944	
Interest thereon,	250				944
Profit for year to date	1304		III Stock—As per Valuation		1336
	£6554		IV. Sundry Debtors	£2100	
Less—Drawings for year	750		*Less*—Estimated Discount thereon	105	
		5804			1995
			V Loan	£200	
			Add—Interest accrued thereon to date	30	
					230
			VI. Cash—		
			In Bank	£547	
			On Hand	32	
					579
		£8144			£8144

N B If the foregoing had been a manufacturing company the wages paid to workpersons would have been placed in the Trading Account, and only the Office Salaries would appear in P. & L A/c, otherwise the accounts would have been prepared in a similar manner.

EXERCISES ON CHAPTER XIX

1 (*From the Institute of Certificated Grocers*)

John Leslie and Frank Sutton are in partnership, sharing profits and losses as to two-thirds and one-third respectively Interest on capital at 5% is to be credited to the partners annually Their Trial Balance as at December 31st 1930 was as follows—

	£	£
John Leslie Capital Account		3600
Current Account Balance Jan 1		120
Drawings	1004	
Frank Sutton Capital Account		2000
Current Account Balance Jan 1		80
Drawings	847	
Furniture and Fixtures	840	
Sundry Debtors and Creditors	2934	854
Purchases and Sales	37,060	43,021
Stock January 1st	1880	
Carriage Inwards	292	
Returns Inwards and Outwards	125	220
Rent	675	
Salaries and National Insurance	967	
Delivery Expenses	356	
Discounts		331
Reserve for Bad Debts		500
Advertising	800	
Rates	280	
Insurance	62	
Telephone	26	
General Expenses	135	
Printing and Stationery	62	
Postage	117	
Repairs	21	
Electric Light	58	
Bank Charges	6	
Investment £1600 5% Railway Stock @ cost	1557	
Interest on Investment		31
Cash at Bank	642	
Cash in Hand	11	
	£50,757	£50,757

Stock at Dec 31st 1930 was valued at £1287

Prepare Trading and Profit and Loss Accounts for the year ended Dec 31, 1930, and Balance Sheet at that date, after making the following adjustments—

One-quarter's rent £225 is outstanding
Rates unexpired £56.
Insurance do £13
Six months' interest accrued on investment (less income tax at 4s 6d in the £)
Carry forward one half of the amount spent on advertising
Accountant's fee for 1930, forty guineas
Write off bad debts £76
Depreciate furniture and fixtures at 7½% per annum.

2. (*From the Institute of Certificated Grocers*)

Briefly explain the following: Inscribed Stock, Allonge, Marked Cheque, Paper Currency, Accommodation Bill, Market Rate of Discount

3. (*From the London Assoc of Certified Accountants*)

From the following Trial Balance prepare Trading, Profit and Loss Account and Balance Sheet as at 31st December, 19—

TRIAL BALANCE

	£	£
Stock at 1st January, 19—	4600	
Purchases	14,960	
Cash in hand	340	
Bank	2266	
Freehold Premises	1860	
Incidental Trade Expenses	84	
Printing, Stationery, and Advertising	164	
Professional Charges	28	
Reserve for Bad and Doubtful Debts		350
Sundry Debtors	3600	
Sundry Creditors		2967
Wages	2900	
Salaries	1000	
Capital (W Hill)		10,000
Income Tax	160	
Discounts allowed	630	
Discounts received		460
Sales		19,840
Bills receivable	320	
Office Furniture	305	
Rent, Rates, and Insurance	400	
	£33,617	£33,617

(*a*) Reserve for Bad and Doubtful Debts to be increased to £500
(*b*) Reserve for Rates accrued due, £50
(*c*) Write off 5 per cent depreciation on Freehold Premises
(*d*) Insurance to the amount of £20 relates to next year
(*e*) Stock at end of year £5200

4 (*From the London Assoc of Certified Accountants*)

Messrs. Sparrow & Robin, Motor Cycle Engineers, London, engaged Mr. Thrush as their North of England representative Under the terms of the Agreement Mr. Thrush is to receive one-tenth share of the net profits of the business, and in addition, 2½% commission on all sales effected by him The net profits for the year ended 31st December, 19—, amounted to £1,500, and Mr Thrush was duly paid £450, representing his share of profits and commission, as per Agreement. Upon the Accounts being audited, however, it was ascertained that Mr. Thrush's commission had been based on "cost" price of goods instead of "sale" price

You are required to give Journal entry to rectify the above error, assuming that cost price was 85% of selling price.

5 (*From the Scottish Federation of Meat Traders' Associations*)

Ledger balances of W Strong at 31st October, 19—, are—

Bank Overdraft,	£4	Goods in Stock	£140
Loan from G Good	50	Cash (on hand)	17
Sundry Creditors—		Fittings and Utensils	96
Market Dealers, Ltd	26	Goodwill	80
Capital	320	*Sundry Debtors—*	
		T Wood	59
		D Short	8
	£400		£400

Write up Sales Book, Purchases Book, also Cash Book

Open Ledger A/cs direct from commencing balances

Prepare Trading, also Profit and Loss Accounts (no Trial Balance) and final Balance Sheet

November Transactions

1	Cash Sale of Goods, lodged bank	£14
1	Bought Wrapping Paper and paid by cheque	8
1	T Wood settled his Account, cheque	59
5	Sold Goods on Credit to G May	136
5	Paid Market Dealers, Ltd, Account, cheque	26
5	D Short is Bankrupt, total loss, write off	8
12	Credit Purchase of Goods from Wholesale Co	44
14	Sold Goods on Credit to T. Wood	64
14	Sold Fittings for cheque	6
14	Credit Purchase of Goods from Market Dealers, Ltd	36
22	G. May settled his Account, cheque	136
22	Paid off G Good's Loan, cheque	50
22	Cash Sale of Goods, *not lodged bank*	11
22	Proprietor drew out for personal expenses, cheque	19
28	Bought goods and paid, cash	4
30	Paid Wages, £9, Petty Expenses, £4	13
30	Paid Carriage (from Market) Account, cash	3
30	New Partner came in (W. Hope), cheque	160
28	Got from T Wood a Bill of Exchange (Receivable) for	64

Final Stocks

	£	s	d.
Goods	65	–	–
Wrapping Paper	3	–	–

Adjustments

	£	s	d
Reduce Goodwill by	5	–	–
Rent and Taxes due but unpaid	16	–	–
Insurance prepaid	8	10	–

CHAPTER XX

"CONSIGNMENT" AND "ON APPROVAL" ACCOUNTS

IN addition to ordinary cash and credit trading, goods may be received or dispatched in the following ways—

"On Approval."
"On Sale or Return."
"On Consignment"

When goods are received "on approval," no entry is made in the financial books until it has been decided to retain them, when the supplier's invoice can be passed through the books in the ordinary way. Goods sent "on approval" are dealt with in various ways, chiefly by means of duplicate credit slips, with checks on the stocks, but in no case is any entry made in the financial books until a sale has actually been effected.

Similar rules apply to goods received on "Sale or Return" Accounts, but as these are sometimes retained for a considerable period, it is usual to ask the supplier to send a "current" invoice when the goods are sold.

In some cases it is convenient for the supplier to arrange for the retailer to take delivery of and to sell all goods consigned to him at the best possible prices, this being done on behalf of the supplier. The retailer then becomes merely an agent acting on behalf of a principal, instead of a purchaser. Transactions of this type are said to be "on consignment." The procedure is as follows—

The consignor sends a "*pro forma*" invoice with the goods, or by the same mail, showing details and suggested prices, and hopes that the sale will ultimately bring him a profit. The consignee (i.e. the retailer) sells the goods as agreed and remits the proceeds to the consignor, after deducting his out-of-pocket expenses and commission. If the retailer guarantees debts for any goods sold on credit, an extra *del credere* commission is usual. The retailer's statement of his intromissions is known as an "*Account Sales*."

In the books of the retailer (where it is known as an *inwards consignment*), the entries are simple in character as the work is being done merely on a commission basis. The following notes explain the procedure—

1. Goods received. Record "*pro forma* invoice" in a special book, or file, unconnected with the financial books.

2. Payment of expenses (carriage, etc.) *Credit* the Cash Account, and *debit* the consignor's personal account.

3. Sale of goods for ready money. *Debit* Cash Account, and credit consignor's personal account.

4 Sale of goods on credit. *Debit* customer, and *credit* consignor's personal account

5. Commission due. By way of the Journal, *debit* consignor's personal account and *credit* Commission Account, the latter being transferred at balancing time to the P. & L A/c.

6. To close transaction. Send remittance to the consignor, *credit* Cash and *debit* consignor's personal account with balance.

The entries in the consignor's books (where they are known as an *outwards consignment*) are more complex. The following formula should be carefully studied, as the books of both consignor and consignee are usually called for in examinations. In practice, firms dealing with consignments have a Consignments Outward Book, but in exercise work it will be sufficient to carry the entries through the Journal. The following notes explain the procedure—

1. On sending goods. Ascertain *cost* prices, and debit a *Consignment A/c, No.* —, the corresponding credit being posted to a *Goods on Consignment A/c,* all at cost.

2. Payment of outgoing expenses (carriage, etc). *Credit* Cash and *debit* the particular Consignment A/c.

3. On receipt of remittance (in part or whole). *Debit* Cash and *Credit* consignee's personal A/c.

4. On receipt of Account Sales:

(*a*) *Debit* Consignee's Personal A/c with gross proceeds and *Credit* Consignment A/c.

(*b*) *Debit* Consignment A/c with Consignee's expenses and commission, and *credit* consignee's personal A/c.

5. At balancing time

(*a*) Transfer balance of Consignment A/c to the Profit and Loss A/c. Before balancing, any part of the stock unsold must be credited at cost plus a proportion of the outgoing expenses.

(*b*) Close Goods on Consignment A/c by transferring it to the Trading A/c.

Example

Arthur & Co consigned goods costing £40 (invoiced *pro forma* at £56) to Brown & Pollok, Butchers, Aberdeen, and paid expenses and carriage amounting to £1 10s. They received an Account Sales as follows, together with cheque value £32 10s. 6d. Make the necessary entries in the books of both firms.

ACCOUNT SALES Consgt No 30

Brown & Pollok

In account with Arthur & Co

Dec 31	To Goods as per *pro forma* invoice, approx value .	£56		
	Deduct— One-quarter unsold . .	14		
		42		
	Less expenses incurred as per receipts attached £1 1s 6d Commission 8 8s			
		9	9	6
E. & O E		£32	10	6

Cheque enclosed in settlement

In Brown and Pollok's books the foregoing will be an inwards consignment, whereas in Arthur & Co.'s books it will be dealt with as an outwards consignment. The entries necessary in both firms' books are given hereunder—

In Brown & Pollok's Books (Inwards Consignment)

Journal

	Dr. £	s	d	Cr. £	s	d.
Sundry Debtors' A/c . . . . . . Dr.	42	–	–			
To Arthur & Co				42	–	–
Sale of three-fourths consgt.						
Arthur & Co. . . . . . . Dr	8	8	–			
To Commission A/c				8	8	–
Commission as agreed						

Dr Cash Book Cr.

	£	s	d.		£	s	d
To Sundry Debtors .	42	–	–	By Arthur & Co's Const. (expenses)	1	1	6
				,, do. (settlement) .	32	10	6

IN LEDGER

ARTHUR & CO Account No 1

Dr.	£	s	d	Cr	£	s	d
To Cash (Expenses) .	1	1	6	By Sundry Debtors .	£42	–	–
,, Commission . .	8	8	–				
,, Cash, Settlement	32	10	6				
	£42	–	–		£42	–	–

COMMISSION ACCOUNT No 2

Dr	£	s	d	Cr	£	s	d
To P & L A/c .	8	8	–	By Arthur & Co . .	8	8	–

IN ARTHUR & CO 'S BOOKS (OUTWARDS CONSIGNMENT)

JOURNAL

	Dr £	s	d	Cr £	s	d
Consgt No 30 A/c . . . . Dr	40	–	–			
To Goods on Consgt A/c . .				40	–	–
Cost of goods sent to Brown & Pollok						
Brown & Pollok . . . . . Dr	42	–	–			
To Consgt No 30 A/c				42	–	–
Gross proceeds of three-fourths of consgt						
Consgt No 30 A/c . . . . . Dr	9	9	6			
To Brown & Pollok				9	9	6
Expenses £1 1 6						
Commission . . 8 8 0						

CASH BOOK

Dr	£	s	d	Cr	£	s	d
To Brown & Pollok .	£32	10	6	By Consgt No 30 A/c .	£1	10	–

IN LEDGER

CONSIGNMENT A/c No 30

Dr	£	s	d	Cr	£	s	d.
To Goods (Brown & Pollok)	£40	–	–	By Brown & Pollok .	£42	–	–
Cash, Expenses .	1	10	–	Stock unsold—¼ of £41 10s c/d	10	7	6
Brown & Pollok—							
Expenses .	1	1	6				
Commission .	8	8	–				
P. & L A/c .	1	8	–				
	£52	7	6		£52	7	6
To Stock unsold b/d	10	7	6				

Dr GOODS ON CONSIGNMENT A/c No 31 *Cr*

	£	s	d		£	s	d
To Trading Account .	40	–	–	By Consignment A/c No 30 . . .	42	–	–

Dr BROWN & POLLOK ACCOUNT No 32 *Cr*

	£	s	d		£	s	d
To Consgt No 30 .	42	–	–	By Cash . .	32	10	6
				Consgt No 30 .	9	9	6

Dr TRADING ACCOUNT *Cr*

	£	s	d		£	s	d
				By Net Sales	—	–	–
				Goods on Consgt .	40	–	–

Dr PROFIT & LOSS ACCOUNT *Cr*

	£	s	d		£	s	d
				By Trading A/c (gross profit)	—	–	–
				Consgt A/c No 30 .	1	8	6

EXERCISES ON CHAPTER XX

1. (*From the Institute of Certificated Grocers*)

On August 21st, 19—, a trader shipped goods valued at cost at £800 to Durban on consignment He paid freight and other charges to destination amounting to £43. At the end of the year he found that only half the consignment had been sold for £600, and that he had received payment therefor from the consignee after deduction for the following expenses, viz —

Landing charges, storage, etc	£18
Commission	36

The consignee had reported that the expenses on the unsold portion of the consignment to 31st December, following, in respect of storage, insurance, etc , amounted to £9

Prepare the Consignment Account and bring down the balance as at 31st December, 19—.

2. (*From the Institute of Certificated Grocers.*)

On September 17th, 19—, Smith & Co of London, dispatched on consignment to Hoey & Co , of Colombo, 150 cases of spirits (cost price 7s. per case), which they invoiced "*pro forma*" at 9s. 9d per case

Smith & Co paid the following charges on shipment—

	£	s	d
Freight	4	17	6
Insurance		15	9
Shipping Charges		18	6

On the following December 31st Hoey & Co rendered an Account Sales

showing that they had sold 94 cases at 10s 4½d each and 38 at 9s 7d each, and that 18 remain in stock Their expenses were—

	£	s	d
Landing Charges	1	7	6
Rent and Insurance	2	5	–

Hoey & Co are entitled to 5% commission on sales

Write up the Consignment Account and the Consignee's Account in the Consignor's Ledger and bring down the balances

3

Give the entries for recording an Inwards Consignment A/c and also the entries for an Outwards Consignment A/c

4

Differentiate between the terms "On Approval," "Sale or Return" and "Consignment"

5 (*From the Scottish Federation of Meat Traders' Associations*)

On 31st March, 19—, Ledger balances of M Steel and A Kerr were—

Loan from C Ross	£480	Goodwill	£200
Bills Payable	44	Business Premises	900
No 1 £44 due 28 Apl		Horse and Van	64
Bank O/Draft	9	Fittings and Utensils	72
Sundry Creditors		Goods in stock	137
E Walsh	38	Wrappings in stock	7
N Keith	21	Bills Receivable	116
Capital.		No 1 £26 due 8 Apl	
M Steel	600	,, 2 £90 ,, 30 June	
A Ker	600	Deposit Receipt	50
		Investment	100
		Sundry Debtors	
		T Mills	130
		W Hurst	12
		Cash on hand	4
	£1792		£1792

Write up subsidiary books *Do not* in this case make opening Journal entry, but open Ledger Accounts *direct* from commencing balances Prepare Trading also Profit and Loss Accounts (no Trial Balance) and draw up final Balance Sheet

Transactions for April

1	Sold Horse and Van complete for	Cheque	£50
1	Bought Petrol	Cheque	4
1	Paid Insurance for 12 *months*	Cheque	12
2	Sold Goods for	Cash	6
2	Bought Goods on credit from N Keith		99
2	Got Dividend on Investment net	Cheque	8
4	Sold Goods on credit to T Mills		186
4	Paid for Motor brought	Cheque	180
4	Got T. Mills' account (Disct allowed £3)	Cheque	127
6	A Ker (partner) took Goods for own use		9
6	Bought Goods for	Cash	4
8	Bill Receivable No 1 met and lodged Bank		26
8	Bill Rec No. 2 discounted (Disct charged £1) and lodged Bank		89

Transactions for April—contd

8	Sent Goods on consignment to F Agent, Leith		£22
8	Bought Goods on credit from E Walsh		166
8	M Steel (partner) drew out for personal expenses,	Cheque	18
8	Sold Goods on credit to P Fane		292
9	Returned Goods to E Walsh		3
16	W Hurst failed, composition accepted 10/- per £	Cheque	6
16	Paid Carriage on Leith Consignment	Cash	1
16	Gave to N Keith on a/c	Cheque	100
20	Bought Goods on credit from Market Supply Co		125
23	Sold Goods for	Cash	9
23	P Fane paid to a/c	Cheque	192
23	Cashed Deposit Receipt } Lodged in		50
23	Gained Interest thereon } Bank		1
25	Sold Goods on credit to Hotel Co Ltd		53
25	Lodged Cash in Bank		10
28	Paid Motor Repairs	Cheque	3
28	Sold Investment for	Cheque	109
28	Paid Bill Payable	Cheque	44
28	Drew Cash from Bank		19
28	Paid addition to Premises	Cheque	100
28	Got Bill Receivable from P Fane		100
30	Sold Goods for	Cash	7
30	J East's a/c Sales, shows £29 clear and he sends	Cheque	29
30	Paid Carriage (inwards)	Cash	3
30	Gave to E Walsh	Cheque	35
30	Paid Wages £17, Petty Expenses £2		19
30	Paid off ¼ of Loan, plus £2 Interest	Cheque	122
30	Gave Bill Payable to E Walsh		166
30	Received for sublet in Premises	Cheque	3

Final Stocks, Goods £51, Wrappings £2, Petrol £1

Adjustments Due but unpaid Wages £4, Rates and Taxes £4.
Reduce Goodwill by £20
Value Fittings and Utensils at £70.

Question Your Sales for a week are Cash £55. Credit £45
Purchases come to £68 Stocks Monday morning £47, following Saturday evening £30 Annual Charges are:—Rent and Taxes £82, Wages and Stamps £120, Other Expenses £28, Depreciation £4
What is the estimated weekly profit?

6. (*From the Scottish Federation of Meat Traders' Associations*)

Ledger balances of M. Sale as at 31st Jany. 19—

Bills Payable:—	£50	Goods in stock	£146
No. 1 due Feb 25		Petrol	3
Bank O/Draft	7	Goodwill	100
Sundry Creditors—		Fitt and Utensils	68
J. Farmer	64	Motor Van	180
Supplies Ltd.	132	*Sundry Debtors*—	
Capital	400	Restaurants Ltd.	38
		T Black	8
		Cook & Co	110
	£653		£653

Write up subsidiary books, and post Ledger *Do not* in this case make opening Journal entry, but open Ledger A/cs *direct* from commencing balances Prepare Trading, also Profit and Loss A/cs (no Trial Balance) and draw up final Balance Sheet.

Transactions for February

1	Got Loan from G Friend	cheque	£190
1	Drew Cash from Bank		9
1	,, Paid Insurance *for year*	cheque	12
1	Bought Wrapping Paper	cash	5
2	Sold Goods on Credit to Restaurants Ltd		177
2	Paid J Farmer's A/c discount £3	cheque	61
4	Bought Goods on credit from Supplies Ltd		219
8	Got from Cook & Co	cheque	110
8	Sent goods on Consignment to Newcastle (A Agent)		40
14	Restaurants Ltd gave to A/c	cheque	115
14	Bought Goods on credit from J Farmer		152
18	Paid Carriage on Newcastle Consignment	cheque	2
18	V Good paid up *old* Bad Debt	cheque	10
18	Sold Goods on credit to Cook & Co.		323
25	A/c sales from A Agent, Newcastle, net proceeds, (after deducting charges)	cheque	45
25	Met Bill Payable due to-day	cheque	50
25	Got Bill Receivable (2 mos) from Cook & Co		323
25	Paid Supplies Ltd to A/c	cheque	201
25	Sold Fittings (in valuation at £4) for	cheque	2
28	T Black failed, settled at 5/- per £1	cheque	2
28	Paid Repairs to Motor	cash	4
28	New Partner (E Hope) joined, lodged	cheque	200
28	Paid off Loan plus interest	cheque	191
28	Cash Sales of Goods for month, not lodged Bank		59
28	Proprietor took Goods (not paid) at cost and also drew for personal expenses	cash	6 12
28	Paid Wages £27, Petty Expenses £3	cash	30
28	Took out Deposit Receipt	cheque	120
28	Lodged Cash in Bank		17

Note:—Profit or Loss *this month* only concerns M Sale

Final Stocks		*Adjustments*	
Goods	£11	Reduce Motor 20% *per annum*	
Petrol	2	Write £10 off Goodwill.	
Wrappings	1	Rent and Taxes due	£21
		Insurance	

Question M Irons buys business from Old & Co Assets taken over are—Stock £64, Fittings £56 Vendors also claim £50 for Goodwill and buyer accepts. Show, as regards M. Irons, the Journal entry, or *alternatively*, his Ledger A/cs concerned.

7. Departmental Houses, etc , which forward priced delivery notes with goods on credit or approval, favour monthly detailed settlements, omitting the ordinary invoices and "To Goods" statements Contrast this with the duplicate statement-of-account system.

CHAPTER XXI

FOREIGN AND ACCOMMODATION BILLS OF EXCHANGE

MANY retailers now purchase their supplies partly from continental and American firms, and there are also some who have customers resident in foreign countries, so that a knowledge of the methods of payments between other countries is essential.

Bank Drafts

For occasional remittance abroad a bank draft is the usual means of payment, and may be purchased from the bank. These bank drafts are really bills of exchange drawn by one banker on another. Payment is made at the current rate of exchange. The banker is notified of the amount of the draft, so that there is a partial security against fraud

Foreign Bills of Exchange

Foreign bills of exchange are generally defined as "bills drawn in one country and payable in another." Generally, they are made out in sets of three, named *vias*, the three copies being sent by different mails. When there is one only, it is marked *Sola of Exchange*. Only one copy of the bill is, of course, payable. Foreign bills are "*clean*" when they have no documents attached, and "*documentary*" when certain shipping documents, invoice, etc, are attached. Foreign firms often prefer bills to be made out in sterling, instead of in their own currency, paying at the rate ruling at the time of the first London endorsement. The rate is written on the bill and the drawer advises the drawee, who arranges for this amount of currency to be transmitted at the due time for the bill to be met. This applies, of course, only when it is the foreign firm which is purchasing. When foreign creditors desire payment in British currency it is usual for them to ask the retailer for an ordinary English cheque.

The *term* of a foreign bill varies according to agreement—some are drawn "at sight," others at a certain number of days after sight, or after date, whilst others are drawn at *usance*, i.e. the usual time fixed by custom between certain countries. "Double" or "Half-Usance" means double or half the customary time.

The stamp duties should be noted. On bills drawn abroad and payable here, and on bills drawn in the United Kingdom, the stamp duty is the same as for inland bills, but foreign bills said to be

payable outside of the United Kingdom but negotiated and paid in this country are subject to the following duty—

Up to £50—same as for an Inland Bill	
Over £50 but not exceeding £100 . .	6d
For every additional £100 or fraction of £100 .	6d.

"Sight" or "Three-day" bills may be stamped with a postage stamp, but all others require a proper bill stamp. The stamp duty is calculated according to rate current on the date of the bill, when this is drawn in a foreign currency, and the stamp must be affixed before negotiation, although the bill may be issued before being stamped.

There is no special form of foreign bill The following is a typical example of a *sterling* bill—

> £210 — —
> (Exchange for) Edinburgh,
> 8th September 1935
>
> 3/-
>
> Two months after sight pay this First of Exchange (Second and Third of the same date and tenor unpaid) to M Tichette and Co or order, two hundred and ten pounds, sterling
>
> (sgd) J Keltings
>
> To M Tichette & Co ,
> Paris

Documentary Bills

Foreign bills, with "documents of title" attached are termed documentary bills. The documents referred to include a copy of the *Invoice for the goods*, the *bill of lading* duly endorsed, *insurance policy* which guards against inadvertent loss, and sometimes a *letter of hypothecation*, this latter being a kind of pledge authorizing the holder, in case of dishonour of the bill, to sell the goods and to charge any deficiency in the proceeds to the drawer Documentary bills usually come through bankers, who insist upon acceptance of the bill before they will release the documents.

Accommodation Bills

Bills of exchange should, of course, be drawn in payment for value received. The facility with which they may be discounted at a low rate of interest induces many persons in need of temporary funds to draw bills without any value having passed between the parties. These are *accommodation bills*, also referred to as "kites," "windmills," and "fictitious" bills.

Accommodation bills are drawn out in the same way as ordinary ones, the acceptors merely lending their name, as they have received

no goods, or value. If it is arranged that they meet the bills at maturity, they will naturally expect to be furnished with the means of doing so, from the person drawing the bill. Occasionally the party lending his name draws a compensating bill at the same time, or receives part payment when the bill is discounted, and the balance later. It is all a matter of mutual agreement If both parties share equally in the proceeds, then the cost of discounting should be borne equally.

The normal procedure is as follows. A draws a fictitious bill on B, which B duly accepts. A then discounts the bill with the bank, and shares the proceeds according to the arrangement. Before maturity, A remits his share to B, who meets the bill on its due date.

If A and B draw compensating bills on the same date and for the same amount, there is no need for sharing or inter-payment. Each meets the bill he accepts on its due date.

Very often the accommodated party draws the bill, so that in the event of its not being met, he will be liable ultimately. If he shared the proceeds with the acceptor this would create "consideration" and the parties would be liable to each other.

I O U

An I O U ("I owe you") is an acknowledgment of debt. It requires no stamp and should include neither promise of, nor date of, repayment, e.g

I O U.

8th August, 1935

To Mr. J Jackson

Twenty pounds sterling.

sgd A Borrower

£20

In examination work, bill exercises are best worked by way of the Journal. Hereunder is a typical question with model solution. (From a Glasgow & West of Scotland Exam.)

A Smith, Oil Merchant, Glasgow, sold goods to the value of £250 to Alf. Met, Painter, Ayr, in exchange for which Met—

Granted his acceptance to a bill	£200
Executed work at Smith's warehouse to the value of £40 and to his House Garage £10	£50

Smith discounted the bill at a cost of £10 On the due date the bill was dishonoured but Met paid £150 to account thereof Met ultimately failed, and his Trustees paid a first and final dividend of 5s per £ Ignoring noting charges—

(a) Give Journal entries in the books of Smith to record the above.

(b) Show by Journal entries how the painting work executed by Met would be recorded in Met's Books.

SOLUTION TO QUESTION

(a) SMITH'S BOOKS

Alf Met	*Dr*	£250	—
To Sales		—	£250
For Goods sold			
Bill Receivable	*Dr*	£200	—
Repairs and Renewals	,,	40	—
Drawings Account	,,	10	—
To Alf. Met		—	£250
For latter's acceptance and painting work executed.			
Bank Account	*Dr*	£190	—
Discount Account	,,	10	—
To Bill Receivable		—	£200
Being Met's Bill discounted			
Alf Met	*Dr*	£200	—
To Bank Account		—	£200
For former's Bill dishonoured			
Bank Account	*Dr.*	£150	—
To Alf Met		—	£150
For Cash received			
Bank Account	*Dr*	£12 10s	—
Bad Debts Account	,,	37 10s	—
To Alf Met		—	£50
For 1st and Final Dividend of 5s per £1, and balance written off			

(b) MET'S BOOKS

A Smith	*Dr.*	£50	—
To Sales		—	£50
For work executed			

EXERCISES ON CHAPTER XXI

1

State some of the differences between inland and foreign bills of exchange. Give an example of a "clean" bill

2

Explain fully the advantages of documentary bills, and the nature of the documents.

3

Define an "accommodation" bill. What are some of its other names?

4 (*From the Institute of Certificated Grocers*)

On 5th October, 19.., Henry Jones bought goods for £1250 from John Brown On the same day he accepted three bills of exchange in settlement, one for £750 at two months, one for £250 at three months and one for £250 at four months. Brown discounted these bills with his banker at 5% interest.

The first two bills were duly met, but the third bill was withdrawn by agreement between Jones and Brown and Brown's Bank, and a new bill for three months from the date the third Bill fell due was accepted by Jones, which Brown also discounted with his banker at 5% Jones became insolvent and was adjudged bankrupt on March 29th, 1932

Record the above transactions in the books of Brown and balance Jones's Account

5

Explain fully what is meant by the abbreviation I O U Give an example. What should be specifically excluded from an I O U?

6 (*From the Institute of Certificated Grocers*)

Jones for the mutual and temporary accommodation of himself and Atkins, draws upon the latter a bill of exchange at 3 months for £800, dated Jan 1, 19— Jones immediately discounts this bill with his bankers at 5% and hands half the proceeds to Atkins

Atkins for a similar purpose and at the same time draws a bill at 3 months on Jones, for £400 He discounts this bill with his bankers at 5% and hands half the proceeds to Jones

Atkins becomes a bankrupt on the following 31st March, and a first and final dividend of 5 shillings in the £ is paid on his estate on June 30th, 19—

Write up Atkins's A/c in Jones's Books Assume, in each case, that one half of the charge for discounting the bill is chargeable to Atkins and one-half to Jones

7 (Revision) (*From the National Committee, Scotland*)

You and Henry King make a consignment of Machinery abroad It is agreed that you are interested equally in any profit or loss resulting from the venture 1000 cases of machinery were purchased at a cost of £20 each and the supplier's account was paid by obtaining from a bank an overdraft of an equivalent amount The following are the expenses, etc, paid by the parties concerned—

	Yourself	King	Foreign Agents
Commission	£500		
Insurance	300		
Sundries	700		
Freight		£760	
Carriage		140	
Erecting			£1250
Distributing			300
Sundries			50

The Foreign Agents cable their advice that they have realized 750 cases at an average price of £32 per case, and they remit you the proceeds less their commission of 10 per cent of the Gross Sales and expenses as shown above. In their cable they state that they are hopeful of selling the remainder of the machinery at better prices.

All the records of the Consignment are kept in your books Assuming that you have repaid King the disbursements made by him and refunded your own outlays, and that the resulting balance of cash in your hands has been employed in reduction of the Bank Overdraft referred to, show how the Ledger Accounts would appear in your books relative to the transactions which have taken place, including the ascertainment of any Profit or Loss at date

CHAPTER XXII

SUBSIDIARY CONTROL OF THE TRIAL BALANCE

In the example of a Trial Balance given in Part I it will be observed that Sundry Debtors and Sundry Creditors are stated to be "as per lists attached" These lists are the detailed lists of debtor and creditor balances in the Personal Ledgers. The work of balancing and posting must have been done perfectly in all Ledgers for the Trial Balance to agree

The difficulty in practical work is to localize the errors. There is usually little trouble in checking over the items in the Impersonal Ledgers, but it may be a very great task to check the Personal ones. It is therefore of immense advantage to subdivide the control of the Trial Balance, by instituting separate arithmetical checks on the Debtors and Creditors Lists.

The name of *self-balancing Ledgers* is given to this type of control, which takes the form of "aggregate" accounts For instance, to check the list of Debtors, a *Total Debtors Account* may be prepared, into which is entered the totals of the subsidiary books which have been posted into the Ledger, thus—

Dr TOTAL DEBTORS ACCOUNT (OCTOBER) *Cr*

Oct. 1	To Balance	b/f	£1200	Oct.	By Cash		£601
	,, Goods invoiced during October		600		,, Discount		7
					,, Bills receivable		50
					,, Returns etc		14
					Balance (per list)	c/d	1128
			£1800				£1800
Nov 1	To Balance	b/d	1128				

The balance of the Total Debtors Account should equal the total of the list of debtors and proves the posting, balancing, etc., of the Debtors Ledger to be arithmetically correct, and also the addition of the relative subsidiary books.

A similar procedure is adopted to check the list of creditors, the account being named a *Total Creditors Account.* The balance is, of course, a credit one, and should coincide with the list of creditors, e.g.—

Dr TOTAL CREDITORS ACCOUNT *Cr*

July.	To Cash		£700	July 1	By Balance	b/f	£900
	,, Discount		20		,, Purchases for month		800
	,, Returns etc		32				
	,, Bills payable		100				
July 31	,, Balance (per List)	c/d	848				
			£1700				£1700
				Aug 1	By Balance	b/d	848

In the Creditors Ledger there are occasionally a few debit balances, arising from the receipt of credits after the accounts have been paid, or from other causes These require entry on the debit side of the account but in the creditors list in the Trial Balance the total is usually subtracted and the net figure only extended, thus—

Total of Trade Creditors . .	£1000	
Deduct debit balances .	4	
Net Trade Creditors . .		£996

A similar procedure is adopted where there are overpaid balances in the Debtors Ledger.

In larger firms, the Debtors and Creditors Ledgers are commonly divided alphabetically or geographically into a number of books, each of which is balanced separately, either by separate accounts or by a "columnar control account." The phrases "Total Debtors Account" and "Total Creditors Account" are sometimes substituted by *Sales Ledger Adjustment Account* and *Bought Ledger Adjustment Account* respectively.

The change of name should be noted particularly, for many examiners give these names in the Trial Balance, instead of the words "Debtors" and "Creditors" This is strictly correct, for the list of debtors and creditors have been proved by means of accounts, which, by the way, are put into the *General Ledger*. The "General Ledger" is the name given to the Real and Nominal Ledgers when they are combined into one book. The following is an example of the ruling of a sectional Sales Ledger Adjustment Account.

Dr. SALES LEDGER ADJUSTMENT A/C *Cr*

Dates		A Led.	B Led	C. Led	Dates		A Led	B Led.	C Led
	To Balance b/f								

With sectional control it is necessary to analyse all invoices, cash, returns, etc., so that totals are available for every book. No set of rules can be given. Every class of business requires a different form of analysis. Some work best with separate books, others with columnar analysis books, suitably subdivided. It is quite usual to expect the book-keepers of separately controlled sectional Ledgers, to control each Ledger themselves. To do so they usually keep an "aggregate" account, at the back of each Ledger, on the lines of a Total Debtors Account, but the balance is shown on the opposite

side, e.g. the total of the debtors is shown as a credit balance. These accounts are given various names, the most common being *Control Accounts* and *General Ledger Adjustment Accounts*, but they are merely statistical records and form no part of the financial books of account.

These subsidiary controls play a large part in quick and accurate modern accounting and the systems described should be thoroughly mastered.

EXERCISES ON CHAPTER XXII

1 (*From the Royal Society of Arts*)

John Garside keeps his "Sales Ledger" upon the "self-balancing principle" Prepare the necessary "adjustment account" as on Jan. 31st from the undernoted particulars—

Jan 1	Total debtors' debit balances at this date were	. .	£12,542
,, 31.	,, goods sold to customers for the month	. . .	21,658
	,, cash received from do do	. . .	15,621
	,, goods returned by do do	. . .	942
	,, discount allowed to do do.	. . .	968
	,, acceptances received from do	. . .	3471
	,, acceptances dishonoured do	. . .	542

2 (*Adapted from the Royal Society of Arts*)

A B, a wholesale cigarette dealer, employs seven travellers, to each of whom a certain district is allotted A separate Sales Ledger is kept for each district

Describe the advantages which would be derived if each of these Ledgers was made self-balancing, and detail the steps which would be necessary to carry out the change

3.

Prepare Total Creditors' or Purchases' Adjustment, and also the statistical account which the book-keeper would keep at the back of the Ledger, from the undermentioned data—

Sept. 1	Credit Balances	£1200
,, 30	Purchases Book total for month	1800
	Cash paid for month	1100
	Discounts received	43
	Bills Payable	150
	Returns and allowances	61
	Cash payments by creditors	2

4.

Prepare Sales Ledger Adjustment Account at October 31st

		£	s	d.
Oct. 1.	Debtor Balances	4316	5	3
,, 1	Credit Balances	1	4	9
,, 31	do. do.	2	1	6
	Sales per Day Book for month	4100	–	–
	Cash returned for over-payments		2	6
	Transfers for contras in Purchases Ledger . .	8	–	–
	Returns and allowances for month	16	3	–
	Cash received during month	5100	–	–
	Discounts given	46	–	–

5

From the following Trial Balance prepare final accounts and Balance Sheet as at 30th June, 19—

	Dr.	*Cr*
Stock	£1900	
Fixtures	300	
Cash	10	
Bank	250	
Expenses of management	500	
Capital A/c		£2560
Wages	400	
Sales (Net)		4000
Purchases (Net)	2000	
Sales Ledger Adjustment A/c—		
Town	1700	
Country	1500	
Purchases Ledger Adjustment A/c		2000
	£8560	£8560

Stock at 30th June, £2130.

QUESTIONS

1. Define "Self-balancing Ledgers" What is their object?
2 Explain how an "adjustment account" is framed
3 Controlling accounts are sometimes raised at the end of the individual Ledgers by the ledger clerks What names are given to these accounts, and how are they constructed? Do these so-called accounts form part of the double-entry system?
4 What is meant by "sectional balancing"?

CHAPTER XXIII

PRIVATE CONTROL AND THE "SCOTCH" CASH BOOK

A REFERENCE was made in the previous chapter to the practice of combining Nominal and Real Ledgers in one book under the title of General Ledger. To keep the details of the Private Accounts confidential, a Private Ledger Account is raised in the General Ledger and in this is recorded relative receipts and payments. With the balance of this account and the adjustment accounts it is possible to prepare a complete Trial Balance. This is the general method in modern factory accounting.

In retail business houses, however, the Nominal Ledger is frequently kept distinct, but it is common to find Real and Private Ledgers combined in one book. In all cases the final accounts and Balance Sheet are included in the Private Ledger Where it is desired to keep the details of the entries in the Impersonal Ledgers confidential, a Private Ledger column is provided in the Cash Book, which the secretary posts to the accounts concerned.

To keep the bank balance confidential is very difficult with the ordinary three-column Cash Book, for the bank column is used as a Ledger account and the balance is brought down at least once a month. For this reason the "Scotch" Cash Book is used extensively in Scotland, especially in retail houses.

The Scotch Cash Book in its simplest form comprises one debit and one credit column. Receipts of every kind, whether of cash or bank cheques, are debited, and payments are credited (bank lodgements are included with the payments). Withdrawals from the bank to augment the office cash are entered on the debit side. The cash balance to begin heads the debit side, and the difference between the sides represents the cash in hand, like any other Cash Account.

The bank items are posted to a *Bank Account in the Real Ledger* (or in the Nominal Ledger, according to some Accountants), which has the previous balance brought forward. To minimize the number of entries in the Bank Account, the Scotch Cash Book has usually a bank column on both sides, but these are merely memorandum columns and carry no balances (unlike the bank columns of the three-column Cash Book). The only point to observe is that payments by cheque require entry on both sides, the credit one being posted to the purchase Ledger Account and the debit one analysed to the "Bank Withdrawn" column

In point of fact, the standard Scotch Cash Books carry a few additional memorandum columns, those for Sales Ledger and Purchase Ledger providing useful totals for the Adjustment Accounts.

The Petty Expenses column collects a miscellany of small items, and the Wages column is convenient for collecting all wages paid. The other items are posted to the Private Ledger column, which is posted to the Impersonal Ledgers by a confidential person.

The analysis columns are totalled and should agree with the cash column minus the balance. Where discount columns are provided they are put alongside the Sales Ledger and Purchases Ledger columns, which latter are then made to include both cash and the discount In checking the analysis the discount must, of course, be deducted when proving the analysis with the cash columns.

The following is an *example of a "Scotch" Cash Book*—

DEBIT SIDE OF A SCOTCH CASH BOOK

Date	Receipts	Cash			Analysis: Bank Drawn			Analysis: Discount			Analysis: Sales Ledger			Analysis: Private Ledger			Analysis: Other Receipts		
		£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d
Jan. 1	To Balance b/f	21	9	3															
	„ J Smith & Co	18	6	10					13	2	19	–	–						
	„ T Castle	6	–	–							6	–	–						
	„ J Mill & Co	14	3	–					7	–	14	10	–						
„ 16	„ Ins Rebate	4	3	6										4	3	6			
„ 20	„ Bank	25	–	–	25	–	–												
„ 31	„ Cheque .	4	1	3	4	1	3												
	„ „	16	10	–	16	10	–												
	„ „	13	–	–	13	–	–												
		£122	13	10	£58	11	3	£1	0	2	£39	10	–	£4	3	6			

CREDIT SIDE OF A SCOTCH CASH BOOK.

Date	Contra	Cash			Analysis: Bank Lodged			Analysis: Wages			Analysis: Petty Exps			Analysis: Disc			Analysis: Purch Ledger			Analysis: Private Ledger			Analysis: Other Payts		
		£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s.	d
Jan 6	By Bank	38	9	10	38	9	10																		
„ 7	„ Petty Exps	1	2	–							1	2	–												
„ 10	„ Prvte Draw.	6	–	–																6	–	–			
„ 11	„ Stationery	4	13	6																4	13	6			
„ 20	„ Wages	22	7	–				22	7	–															
„ 21	„ Trav. Exps	8	–	–																8	–	–			
„ 22	„ Motor Exps (ch) .	13	–	–																13	–	–			
„ 31	„ A. Mix (ch)	4	1	3											3	9	4	5	–						
	„ L. Tom „	16	10	–											10	–	17	–	–						
	„ Balance c/f	8	10	3																					
		£122	13	10	38	9	10	22	7	–	1	2	–		13	9	21	5	–	31	13	6			

In many retail houses, particularly where the Scotch Cash Book is in use, the General Ledger is kept in a perfunctory manner so that the details have to be gathered together at the end of the financial year. Where the books are kept in a proper manner it will be possible to obtain the following information—

Total Cash Account for the period, giving totals of the

various kinds of receipts and expenditure, and beginning and closing balances.

Adjustment Accounts for the Ledgers.
Bank Account.
Beginning Balance Sheet.
Note of all adjustments to be made.
Closing Stock-in-trade.

From these details it is possible to prepare final accounts and Balance Sheet, for the work has been done according to double-entry principles, but not fully posted.

A Trial Balance is first drawn up by abstracting the fixed assets, stock, loans, and capital from the beginning Balance Sheet. Debtors, creditors, sales, purchases, discounts, allowances, etc, will be obtained from the Adjustment Accounts. The Bank Account will provide the bank balance and the Cash Account the cash one. The Cash Account will also give the details of receipts and expenditure ordinarily posted to the Impersonal Ledgers.

The construction of a Trial Balance on these lines forms an excellent introduction to incomplete book-keeping, and the following example should be worked independently and checked with the solution, which is given.

Example

BALANCE SHEET AT COMMENCEMENT OF PERIOD

Creditors	£1033	Cash	£89
Capital	5436	Bank	1753
		Debtors	1885
		Stock	2132
		Motor Vans	200
		Fixtures	410
	£6469		£6469

TOTAL CASH ACCOUNT

	£	£
Cash balance brought forward	89	
Bank withdrawals during period	7584	
Ready money sales	4100	
Credit sales accounts	4109	
Bank lodged		7292
Carriage		102
Purchases accounts		6800
Wages and Salaries		800
Trade Expenses		162
Advertising		100
Heating and Lighting		65
Rent, Rates and Taxes		150
Private Drawings		318
Balance carried forward		93
	£15,882	£15,882

Bank Account

Balance b/f	£1753	Withdrawn	£7584
Lodgements	7292	Balance c/f	1461
	£9045		£9045

Total Debtors Account

Dr.			*Cr*
To Balance b/f	£1885	By Cash	£4109
,, Sales Book	4027	,, Discounts	80
		,, Bad debts	6
		,, Returns	17
		,, Balance c/f	1700
	£5912		£5912

Total Creditors Account

Dr			*Cr*
To Cash	£6800	By Balance b/f	£1033
,, Discount	170	,, Purchases Book	7053
,, Returns	93		
,, Balance c/f	1023		
	£8086		£8086

Trial Balance

	Dr £	*Cr.* £
Cash	93	
Bank	1461	
Total Debtors' A/c	1700	
Stock	2132	
Fixtures	410	
Motor Vans	200	
Capital		5436
Total Creditors' A/c		1023
Private Drawings A/c	318	
Ready Money Sales		4100
Credit Sales		4027
Purchases	7053	
Returns & Allowances	17	93
Discounts	80	170
Bad Debts written off	6	
Carriage	102	
Wages and Salaries	800	
Trade Expenses	162	
Advertising	100	
Heating and Lighting	65	
Rent, Rates and Taxes	150	
	£14,849	£14,849

EXERCISES ON CHAPTER XXIII

1 (*From the Glasgow and W of S Commercial College*)

Messrs. Sloan & Co had the following cash transactions—

			£
May	1	Balance in Bank on current account	300
		Balance in Bank on deposit receipt a/c	1000
		Cash in Hand	20
,,	3	Received settlement of account from A Jones (Discount £10), cheque	370
		Lodged in bank above cheque	370
,,	7	Paid A Smith (Discount £5), cheque	100
,,	8	Drew Cash from Bank for office use	50
		Paid Wages	53
		Cash Sales	15
		Lodged in Bank	10
,,	10	Cashed deposit receipt and lodged in Bank (no interest)	500

Frame a Cash Book incorporating the above intromissions in—
1 Scottish style. 2 English style

2 (*From the Glasgow & W of S. Commercial College*)

The cash transactions of Messrs Cox & Swan during the month of October were as follows—

				£	s	d
Oct	1	Cash in hand		20	1	1
		Cash due to bank		980	5	4
,,	1–31	Recd cheque from J Brown in settlement of account £90		85	10	–
		Drew cash from bank		30	–	–
		Paid wages in cash		45	7	8
		Cash sales		10	2	2
		Paid telephone by cash		3	4	4
		Paid local rates by cheque		15	7	7
		Paid cheque to A Frost (discount £2/10/-)		47	10	–
		Sold motor car for £150				
		Settled by cheque	£110			
		Settled by cash	40			
				150	–	–
		Lodged cash in bank		35	–	–
		Cash shortage written off			10	–
		Bank overdraft interest charged by bank		8	5	6

Assuming all cheques when received are immediately lodged in bank, record the foregoing transactions in the Scottish and English style of Cash Book, showing, where necessary, any Ledger account relating to the bank transactions

3. State the main differences between a "Scotch" Cash Book and a Three-column Cash Book What are advantages and disadvantages of each type? Give an example of the ruling of a tabular "Scotch" Cash Book

4. (*From the West of Scotland Commercial College.*)

The following particulars have been extracted from the books of John Joy covering the year ended 31st December, 19—

Bad Debts written off during year	£400
Bills drawn during year	5000
Cash paid Creditors	9900
Returns Outward	[illegible]00

Book Debts at commencement	£7,000
Cash received from Debtors	11,300
Credit Purchases during year	12,000
Bills receivable dishonoured	1000
Discount allowed	700
Returns Inward	1600
Book Debts at end	9000
Sundry Creditors at commencement	5000
Discount received during year	600

You are requested to prepare Statements showing—

(*a*) Sales made during year ended 31st December, 19—
(*b*) Sundry Creditors as at 31st December, 19—

5 (*a*) State under numerical heads any advantages to be derived from the installation of Sales Ledger and Purchase Ledger Control Accounts

(*b*) Show the ruling of a Cash Book embracing Discount, Cash, and Bank Entries which will prove suitable for the incorporation of such Accounts, and introduce by lines drawn to the respective Ledger Account how the individual and total amounts are posted

Note No figures need be inserted in the Cash Book

QUESTIONS

1 The Stock Account and the Bank Account are sometimes kept in the Private Ledger Give the reason

2 How may a set of books be periodically balanced by way of a Trial Balance, without the book-keeper having beside him the details in the Private Ledger?

3. Where the Impersonal Ledgers are not posted in a proper manner, what information is necessary to prepare accurate Final Accounts and Balance Sheet?

4 How is it possible to keep the bank balance confidential?

CHAPTER XXIV

SYSTEMS OF SINGLE-ENTRY BOOK-KEEPING

WHERE the book-keeping is carried on in such a way that the preparation of a Trial Balance is impossible without the insertion of arbitrary figures, it is said to be by "single entry." Single-entry methods range from crude records of personal accounts to systems closely approximating double-entry book-keeping.

Without "double entry" the record of transactions is incomplete; for example, the credit Sales Books may be posted to the Sales Ledger, but the sales duplicates may not be added or posted to the Sales Account in the Nominal Ledger. Frequently, also, there is no information respecting the assets, or gains and losses, and consequently, the final results are in a large measure unreliable.

Assuming that the work of posting has been done correctly by single entry, *of which there is no check*, the net profit or loss for the period may be made up very simply by ascertaining the difference between the proprietors' capital at the beginning and end of the period. To this figure must be added any private drawings of the partners during the period, whilst any fresh capital introduced would be deducted. Where interest on capital is to be taken into account, this should be calculated and deducted. (Example overleaf.)

As no Balance Sheets are available from "single-entry" book-keeping, *Statements of Affairs* are made up in similar style, so as to arrive at the proprietor's capital, although many accountants are now drawing these with the assets and liabilities on the reverse sides from a Balance Sheet, i.e. Assets left, and Liabilities and Capital on the right. Capital Accounts are prepared with the details available posted therein In the example on the next page—

A's Capital Account will have a debit of £400 and credits of £4000, £200, £1000, and £275: leaving a balance of £5075; whilst B's Capital Account will be debited with £250, and credited with £2000, £100, and £275, leaving a balance of £2125. The sum of the two balances is then equal to the difference between the assets and liabilities at the 31st December, which is given as £7200, as against the figure of £6000 at the 1st Jan.

It is always advisable to convert the books to "double-entry" principles, and this may easily be done by preparing a Statement of Affairs, and from the details therein writing up "Opening Journal Entries," thereafter proceeding in a proper manner to write up all the books on double-entry lines.

Example of Statement of Profit from Single-entry Accounts

Assets and Liabilities at 31st Dec . .				£7200
Add Private Drawings.				
A .	£400			
B . .	250			
				650
Deduct				7850
Capital at the 1st Jan . .			A £4000	
			B 2000	
			6000	
New Capital introduced Add .			A 1000	
			7000	
Add Interest on Capital				
A 5% of £4000	£200			
B 5% of 2000	100			
			300	
				7300
				£550
Net Profit divided equally		A £275		
		B 275		
		£550		£550

As a rule, the total statement of profit or loss is insufficient, and it is frequently necessary to supplement it with a detailed Profit and Loss Account, even though it may not be wholly reliable. It is usually possible to do this with a Cash Book suitably analysed, under the various classes of expenditure, together with Debtors' and Creditors' Ledgers, and a Bank Book.

A simple method in such cases is to proceed by way of a Trial Balance, entering arbitrary figures where exact ones are not available, and then preparing final accounts, etc., in the usual manner. The one difficulty is to make certain that the arbitrary figures are the correct ones, provided that the book-keeping had been done on the double-entry system.

The number of arbitrary figures necessary will depend on the number of books which are being kept. In the preceding chapter it was demonstrated that a Trial Balance could be formed perfectly if the following data were available—

1. Opening Balance Sheet.
2. Bank Account.
3. Analysed Total Cash Book.
4. Total Debtors' or Adjustment A/c.
5. Total Creditors' or Adjustment A/c.

The process then resolves into creating substitute accounts, etc., from the "single-entry" details, which will provide all the data

necessary to frame the Trial Balance. The following notes and subsequent illustration will be a guidance—

1. OPENING BALANCE SHEET The Statement of Affairs serves as a substitute
2 BANK ACCOUNT The Statement of Affairs provides the opening balance (if cash and bank are combined, subtract the opening balance in the Cash A/c) Lodgements and withdrawals will either be available from the Cash A/c or the Bank Book
3 ANALYSED TOTAL CASH ACCOUNT This is ordinarily available, or at least the details which constitute it are
4 TOTAL DEBTORS' ACCOUNT

   Balance b/f at beg—see Statement of Affairs
   Balance c/f at end—see list of debtors at end of period
   Bills receivable—there should be a special note of these.
   Cash received—see analysis of Cash Book
   Discounts paid—usually noted in Cash Book
   Credits allowed—see special list of these
   Sales—This is the *arbitrary* figure, provided the others are available, and is the difference necessary to square the account.

5 TOTAL CREDITORS' ACCOUNT

   Balance b/f at beg—see Statement of Affairs
   Balance c/f at end—see list of creditors at end of the period
   Bills Payable—there should be a special note of these.
   Cash paid—see analysis of Cash Book
   Discounts received—usually noted in Cash Book
   Credits received—see special list of these
   Purchases—This is the *arbitrary* figure, provided the others are available, and is the difference necessary to square the account

6 CONTRA TRANSFERS

   Where accounts are due to and by the same person or firm, settlement is often by "contra," in which case the "Total Accounts" are debited and credited with the respective amounts.

Example

The firm of A & B keep their books by "single entry," and from the following data it is desired to prepare accounts, on the assumption that the figures given are correct, together with a Statement of Affairs, showing the position at the 31st Dec 19—

STATEMENT OF AFFAIRS AT 1ST JAN 19—

Assets	£	s	d	*Liabilities*	£	s	d.
Cash and Bank Balances	114	1	–	Creditors .	140	5	–
Debtors	117	12	6	Accruals:			
Stock	204	–	–	Rent and Rates	32	–	–
B/R	79	17	–	General Charges .	5	–	–
Fixtures and Fittings .	283	–	1	Capital A/cs			
Insurance unexpired .	4	–	–	A . . .	304	5	7
				B	321	–	–
	£802	10	7		£802	10	7

During the following year the analysis of the Cash Book shows the following abstract—

	£	s	d	£	s	d
Balance b/f	1	9	–			
Cash Sales	6632	–	–			
Credit Sales	2180	18	–			
Bank Drawn	8026	19	–			
Loan from L A	300	–	–			
Capital paid by A	120	–	–			
Capital paid by B	50	–	–			
B/R	70	1	6			
Credit Purchases				7100	–	–
Cash Purchases				350	–	–
Rent, Rates, etc				85	–	–
Bank Lodged				9100	10	6
Salaries				460	–	–
General Expenses				14	–	–
Fittings A/c				152	–	–
Repaid to L A				27	–	–
Capital Account A				61	–	–
Capital Account B				19	–	–
Cash on hand at 31st Dec.				12	17	–
	£17,381	7	6	£17,381	7	6

Stock at 31st Dec	£285
Debtors at 31st Dec	86
Creditors do	191
Charges accrued	8
Rent and taxes *prepaid*	2

(Note that the rent etc. was accrued at the beginning of the period)

Solution

The substitute accounts are not shown here as they would be similar in every way to the ones illustrated in the previous chapter The Trial Balance, however, has been analysed, so that it may be easily checked

TRIAL BALANCE

	Dr £	s	d	*Cr.* £	s	d.
1 *From the Statement of Affairs*						
Stock	204	–	–			
Fixtures and Fittings . .	283	–	1			
Insurance unexpired .	4	–	–			
Accrued Rent and Rates .				32	–	–
Accrued General Charges .				5	–	–
Capital .						
A				304	5	7
B				321	–	–
2 *From the Bank Account*						
Bank	1186	3	6			
3 *From Analysed Cash Book*						
Cash	12	17	–			
Bills receivable (less bal)	9	15	6			
Loan from L A .	27	–	–	300	–	–
Additions to Capital—						
A				120	–	–
B				50	–	–
Cash Sales				6632	–	–
Cash Purchases .	350	–	–			
Rent and Rates . .	85	–	–			
Salaries	460	–	–			
Additions to fittings .	152	–	–			
Private Drawings						
A	61	–	–			
B . . .	19	–	–			
General Expenses .	14	–	–			
4 *From Total Debtors' Account*						
Sales (credit)				2149	5	6
Debtors	86	–	–			
5. *From Total Creditors' Account*						
Purchases (credit)	7150	15	–			
Creditors				191	–	–
	£10,104	11	1	£10,104	11	1

Adjustments and Closing Stock—

Stock at 31st Dec £285
Charges accrued at 31st Dec £8
Rent and Rates *prepaid* at 31st Dec. £2

EXERCISES ON CHAPTER XXIV

1. From the Trial Balance and adjustment figures given in the solution example, prepare Final Accounts and Statement of Affairs, in the form of a Balance Sheet, but with the assets and liabilities on the reverse sides. In addition form the various substitute accounts referred to

2 (*From the Institute of Certificated Grocers*)

F Shenstone is a grocer who keeps his books on a cash basis His position on January 1, 19—, was as follows: Capital £677 16s 10d, Stock, £290 15s 3d, Trade Creditors, £75 15s 7d, Furniture and Fittings, £142 10s, Rates paid in advance, £4 7s 10d, Water unpaid, £1 7s 0d; Accountant's Fee outstanding £7 7s 0d, Electric Light, £1 19s. 2d, Cash at Bank, £326 12s. 6d

The following is a summary of his Cash Account for the year 1932—

	Dr			*Cr*		
	£	*s*	*d*	*£*	*s*	*d*
Cash at Bank, January 1	326	12	6			
Purchases				1881	9	0
Sales	2190	2	1			
Wages				96	13	0
Rent				52	0	0
Rates				28	8	11
Gas and Electric Light				8	18	10
Insurance and Sundries				11	17	1
Accountant's Fee for previous year				7	7	0
Repairs and Renewals				8	5	0
Drawings				168	19	0
Cash in Hand, December 31				5	4	1
Cash at Bank				247	12	8
	£2516	14	7	£2516	14	7

At December 31, 19—, Stock-on-Hand was valued at £284 19s 11d: accounts owing were: Sundry Creditors, £53 14s 6d, Accountant's Fee, £7 7s 0d, Gas and Electric Light, £2 4s 9d; and Water, £1 7s 0d, Rates paid in advance, £4 14s 0d

Prepare Trading and Profit and Loss Account for the year and Balance Sheet as at December 31, 19—.

3 (*From the Glasgow and W of S Commercial College*)

A. Ransome desires to frame accounts of his business at 31st December, 19—, and the following are the balances extracted from his Ledger at that date You are informed that at that date the stock is valued at £2000, and bad debts have to be written off to the extent of £100 Frame Balance Sheet as at 31st December, 19—, with relative Trading and Profit and Loss Accounts for the year ended that date.

Balances referred to

Bank Overdraft	£700
Stock at previous 1st January	1500
Sundry Debtors	1180
Fixtures	200
Rent and Taxes	300
Wages	700
Purchases	8500
Returns Outward	400
Creditors	800
Sales	10,000
Cash on Hand	20
Proprietor's Drawings	600
Capital at previous 1st January (Balance at credit.)	1900
Returns Inward	200
General Charges, &c.	600

4 (*From Glasgow and West of Scotland Commercial College*)

John Brown's system of book-keeping is incomplete He keeps a Sales Day Book and a Cash Book from which a Customers' Ledger is accurately written up, but no further posting is done

For the year to 30th September 1935, his total Day Book sales are £25,000, and you ascertain that, at 1st October 1934, his customers owed him £3500

From his Cash Book you find that his transactions for the year may be summarized as follows—

Receipts			*Payments*		
1934 Oct 1	To Cash in hand	£50	1935 Sept 30	By Sundry Creditors for Goods supplied	£18,230
1935 Sept. 30	Cash Sales	2500		„ Wages	3500
	„ John Brown, Cash paid in	1500		„ Rent, Rates, and Insurances	570
	„ Interest on Deposit Receipt	10		„ General Charges	620
	„ Withdrawals from Bank C/A	25,700		„ Lodgments in Bank C/A	27,310
	„ Received from Customers (Discount allowed, £950)	22,750		„ Lodged on Deposit Receipt	1250
	„ Deposit Receipts uplifted	1000		„ Plant bought	850
				„ John Brown, Drawings	1000

You also obtain the following information—

	1st October 1934	30th September 1935
Sundry Trade Creditors	£2990	£2500
Stock on Hand	4700	4400
Wages due but unpaid	50	70
Insurances unexpired	20	15
Plant	1010	1860
Cash in Bank on Current Account	375	..

You are informed that of the debts due by customers at 30th September 1935, £250 is irrecoverable and should be written off

Prepare Profit and Loss Account for year to 30th September 1935, and Balance Sheet as at that date

No Interest is to be allowed on capital, but provision should be made for depreciation at 5 per cent on plant, including additions

5. (*From Glasgow and West of Scotland Commercial College.*)

C. Rigg keeps his books by Single Entry. On 1st January 19— his Plant and Machinery was valued at £5800 and Furniture and Fittings at £1740. Below is shown an analysis of his Cash Book for the year, from which you are required to prepare a Profit and Loss Account for the year ended 31st December 19—, and Balance Sheet as at that date, after providing 5% Interest on Capital (not including additional Capital or Drawings), 7½% depreciation on Plant and Machinery, 5% depreciation on Furniture and Fittings, and a 5% reserve for Bad Debts Rigg had in his books at 1st January 19— a General Reserve of £2000, which he desires increased by £500 at the date of framing the Accounts requested.

Dr.	CASH BOOK		*Cr.*
Received from Debtors	£11,250	Payments to Creditors	£9300
Paid in on Capital Account	500	Drawings	380
		General Expenses	750
		Wages	1050
		Insurance	120

You are also given—

	Jan 1	Dec 31
Sundry Debtors	£9,710	£10,400
Sundry Creditors	7,500	5,300
Stock in Trade	2,500	2,750
Cash in Bank	250	385
Cash in Hand	.	15

6 (*From the Glasgow & W of S Commercial College*)

A and B commence business as partners on 1st January, 19—, A contributing £4000 of capital and B £2000 Each partner was to receive interest on capital at 5%, and thereafter the profit was to be divided equally The books were kept by single-entry, and at 31st December, 19—, the assets consisted of stock, £5600; cash in bank, £800, and trade debts, £2400; while there were trade liabilities of £2600 A had drawn during the year £400 and B £250 Prepare Partners' accounts and Balance Sheet at 31st December 19—, ignoring interest on drawings

7 (*From the Glasgow and W of S Commercial College*)

Messrs A Jones and B Smith are in partnership and trade under the firm name of F Best & Co The financial year of their firm ends each 5th April, and the co-partnery agreement provides that all profits and losses be allocated in the proportion of two-thirds to Jones and one-third to Smith The book-keeping records are incomplete, but the partners placed before you the following statement showing their position as at 5th April, 1935—

Assets			
Plant			£2000
Book Debts		£2300	
Less Bad Debts Reserve	£300		
Discount Reserve	100		
		400	
			1900
Stock			1500
Charges unexpired			40
			£5440
Liabilities			
Sundry Creditors	£1400		
Less Estimated Discount	90		
		£1310	
Bank Overdraft	790		
Less Cash on hand	20		
		770	
Wages due and unpaid		60	
			2140
Surplus			£3300
Whereof due to			
A Jones		£2500	
B. Smith		800	
			3300

You have satisfied yourself that the above statement is in accordance with the books at 5th April, 1935 From the records available you have ascertained that in respect of the year ended 5th April, 1936—

1. Bank Lodgements exceed withdrawals by £900

II Discounts allowed and received by the firm were £480 and £400 respectively

III Bad Debts written off during the year amounted to £70, and it is necessary to have a reserve of £400 therefor at 5th April, 1936

IV Stock at 5th April, 1936, was £1690

V Partners' drawings during year—A Jones, £1000, B Smith, £240

VI Wages and Charges paid during year was £2480 and £1820 respectively

VII The firm borrowed £300 from A Walker, on which £15 interest was paid (Ignore Income Tax)

VIII Plant appearing in the books at the value of £250 was sold for £200 and new plant purchased at a cost of £170

IX During the year cash received from debtors was £29,550, and amount paid to creditors £23,414

X Sales effected during the year were £30,000

XI Sundry Creditors due at 5th April, 1936, were £1700, of which £100 was on Bill Payable Account.

XII At 5th April, 1936, the following provisions are necessary—

(*a*) 5% allowance for discount on debtors and creditors
(*b*) Plant, including additions, to be depreciated 5%
(*c*) Wages due and unpaid, £80 Charges unexpired, £60
(*d*) Interest on commencing capitals to be allowed at 5%

Frame Balance Sheet as at 5th April, 1936, with relative Profit and Loss Account for the year ended that date

CHAPTER XXV

PARTNERSHIP LAW AND ACCOUNTING

In Chapter XIII there was described the creation and simple adjustment of partners' accounts, on the assumption of a common agreement. The agreement may be oral, although it is more usual to find it contained in a "Deed of Partnership," sometimes called Articles of Partnership, Partnership Agreement, or Co-partnership Agreement.

The partnership deed, among other things, contains clauses descriptive of the firm name, its business, and its address, the date of commencement and duration (or at will), the total capital to be contributed by the partners and if any interest thereon; in what ratio the profits or losses are to be divided, and if any salaries are to be paid to the partners. There are also rules as to the rate of private drawings; interest on capital; provision for proper accounting, audit, and if necessary, arbitration, clauses showing how the accounts are to be adjusted (capital and goodwill) and repayments made in the case of deceased or retired partners.

There are four kinds of partners in an ordinary partnership, viz.—

Active (Ordinary). Those actively engaged in the affairs of the business.

Sleeping (Dormant). Those with capital in the business but not actively engaged. They are equally liable with active partners for the firm's debts.

Ostensible (Apparent, Nominal). Persons who, "holding-out" themselves to be partners, induce credit to the firm which would not otherwise be given, and in consequence make themselves responsible as if they were partners.

Quasi. Those who while retired have still capital remaining in the business. The term is also loosely employed where ostensible partners are intended.

In the absence of any agreement between the partners, the Partnership Act, 1890, lays down the following rules—

1 Partners are entitled to share equally in the capital and profits of the business, and must contribute equally to losses, whether of capital or otherwise, sustained by the firm

2 No interest is payable in respect of capital before the ascertainment of profits, but parties are entitled to interest at 5% per annum on advances (i.e. loans) apart from capital

3 Every partner may take part in the management of the business, but no partner is entitled to salary for his services.

4 No person may be introduced as a partner without the consent of all existing partners

5 The partnership books are to be kept at the place of business, and every partner may have access to them

Rights and Liabilities of Partners

The following points should be carefully noted—

Evidence of Being a Partner. It is ordinarily sufficient for a person receiving a share of the profits of a business to be considered a partner.

Responsibility for Partnership Debts The liability of the partners in an ordinary partnership for the debts of the partnership is unlimited. Their private property may be called upon to make good a deficiency of capital where the firm is unable to meet its liabilities

There is a joint liability (in Scotland, joint and several) for firm debts incurred while a partner After death, there is a several liability on his estate for unsatisfied debts, subject to a first payment of his separate debts. The latter stipulation does not apply to Scotland.

Expulsion of Partners. Partners may not be expelled unless there is power to do so contained in the deed of partnership

Duration of Partnership. If indeterminate the partnership is "at will," and any partner may terminate it by giving notice to the other partners. Many partnerships for a fixed time continue afterwards "at will," and the rights and duties are assumed to be as before termination.

Legal Status. In an ordinary way a firm is considered to exist quite apart from those owning it, i.e. to be a "legal *persona*." This is the case legally in Scotland, where a partner may sue and be sued by the firm. In England, however, the firm does not exist legally as a separate entity. The firm name is merely a convenient symbol to express the grouping of the various partners.

Competitive Profits. There must be express agreement before partners may make individual profits arising out of or in competition with the firm.

Incoming Partners. These are not liable for debts contracted before admission to the firm.

Outgoing Partners. Retiring partners remain liable for firm debts which are incurred prior to time of retiral. They may be released by the new firm and the creditors.

To avoid liability for debts incurred after retiral, the retiring partners should advertise the fact in the appropriate *Gazette*, and notify personally all who have dealings with the firm Even though the firm continues in its old name after the death of a partner, the deceased's estate is not liable after death.

Agency of a Partner. All partners are agents of the firm in carrying on the partnership business, binding the other members by his acts

and in turn being bound by the acts of his fellow members. To bind the credit of the firm, partners must act for purposes apparently connected with the firm's ordinary business affairs

Limited Partnership Act, 1907

This Act has not been greatly taken advantage of. In brief, it provides for there being "limited" partners, who lend capital, but escape further liability in the event of a deficiency. Limited partners can neither bind the firm nor take part in the management, so there must also be "general" partners, who take on the duties and liabilities of active partners in an ordinary partnership Registration and observance of certain rules laid down in the Statute are necessary.

Registration of Business Names Act, 1917

The following are the chief provisions of this Act—

Registration is necessary where the firm name does not state the true surnames of the partners, and business stationery is required to record the partners' names, and their nationality, if not natural-born British subjects

Registration is not necessary where the name is indicative that it is a business being carried on in succession to a former owner, or where the letter "S" is added to indicate a plurality of partners of the same name, nor is registration necessary where the business is being carried on by a Trustee in Bankruptcy, or a Receiver and Manager appointed by the Court.

Incoming Partners

Special entries are usually necessary to record the capital brought into the business by new partners. Frequently, at such a time, payment is made, or credit given, as a premium for share of goodwill. The benefit of this payment for goodwill is shared between the existing partners in the ratio in which they previously shared profits and losses.

1. *Where Cash is Paid for Goodwill.*

(*a*) In some cases the payment is made outside the business and no financial records are necessary.

(*b*) In others the sum may be put in the firm's banking account, the existing partners' capital accounts being credited in their due proportion.

(*c*) Again, the sum may be put in the bank, the partners duly credited, and the partners be then allowed to withdraw up to the limit of their share, or indeed to any agreed-upon figure, usually dependent upon the needs of the business.

EXAMPLE A Apton agrees to admit F Dick into partnership on the following terms—(*a*) that Dick brings in £2000 capital, and (*b*) that £600 is to be paid into the business as premium for goodwill

BALANCE SHEET OF A APTON

Liabilities, etc			*Assets*	
Creditors		£2200	Sundry Assets	£7000
Capital		5800	Cash	1000
		£8000		£8000

BALANCE SHEET AFTER DICK'S ADMISSION

Liabilities, etc			*Assets*	
Creditors		£2200	Sundry Assets	£7000
Capital			Cash	3600
Apton	£6400			
Dick	2000			
		8400		
		£10,600		£10,600

2. *Where Credit Only is Given for Goodwill.*

Incoming partners do not always pay the premium agreed upon in cash, but may permit the old partners to take credit for its value It is then necessary to create a Goodwill Account as a contra to the increases in the Capital Accounts.

EXAMPLE Comette and Brown, sharing profits two-thirds and one-third respectively, agree to admit Johnstone on condition that he brings in £3000 capital in cash into the business No cash payment is to be made for share of goodwill, but it is agreed to create a Goodwill Account for £1500, which is to be credited to the partners in proportion as they share profits and losses

BALANCE SHEET OF COMETTE AND BROWN

Liabilities, etc			*Assets*	
Creditors		£3000	Sundry Assets	£14,000
Capital—			Cash	1000
Comette	£9000			
Brown	3000			
		12,000		
		£15,000		£15,000

BALANCE SHEET AFTER JOHNSTONE'S ADMISSION

Liabilities, etc.			*Assets*	
Creditors		£3000	Sundry Assets	£14,000
Capital—			Cash	4000
Comette	£10,000		*Goodwill*	1500
Brown	3500			
Johnstone	3000			
		16,500		
		£19,500		£19,500

3. *Changes Involving Adjustments of Assets.*

In admission of a partner and in amalgamation of business houses, it often happens that the assets are re-valued, any depreciation or appreciation being adjusted in the partners' Capital Accounts. New partners also frequently bring in assets, which form part of their capital.

EXAMPLE The Journal entry is self-explanatory

JOURNAL

Fittings	*Dr*	£200	
Stock . .	*Dr*	150	
To A's Capital A/c . . .			£175
B's do . . .			175
Appreciation of Assets on revaluation, and net gain divided between equal partners			
Debtors . . .	*Dr*	£1000	
Stock .	*Dr*	800	
Cash	*Dr*	2000	
To C's Capital A/c			£3800
Assets brought in by C, a new partner			

The existing partners in a firm frequently guarantee to an incoming partner the values of the assets and liabilities shown on the Balance Sheet, and occasionally give him a preferential claim on the first year's profits against errors which may be discovered later.

4. *Creation of Goodwill on Death or Retirement.*

Upon the death or retirement of a partner his share of goodwill has to be re-valued in terms of the deed of partnership. If there is no deed then the goodwill must be valued, and the partners' Capital Accounts credited in due proportion. Alternatively a lump sum based on a percentage of average profits, or even an annuity, may be the means of payment.

To have the means in cash of paying out cash to a deceased partner's representatives, partners often insure their lives by taking out what are termed Survivorship Policies of Assurance.

EXAMPLE X, Y and Z are in partnership. Z retires and it is agreed that goodwill is to be valued at three years' purchase of the average profits of the past six years, which were £800, £1000, £1400, £1600, £1600, and £2000

On the above basis the goodwill works out at £4200, which is divided as under—

JOURNAL

Goodwill Account	*Dr*	£4200	
To X's Capital A/c			£2400
Y's do . . .			1200
Z's do . . .			600
Goodwill created and divided in same proportion as profits and losses are divided			

Z would be entitled to a payment of £600 in addition to his capital, as shown in his Capital Account, before posting the above amount

EXERCISES ON CHAPTER XXV

1 A admits B into partnership B pays £2000 capital and £200 goodwill premium What are the different ways in which this could be recorded? Show the Balance Sheets before and after B's entry, assuming that the cash is brought into the business

2 A & B are in partnership and agree to admit C as a partner He brings in £5000 capital but makes no payment for goodwill premium, although his share is valued at £500 by the other partners, who share profits equally It is agreed to create a Goodwill Account and to credit the old partners with an equal share Show the Balance Sheets before and after C's entry.

3. (*From the Glasgow & W of S Commercial College*)

The Statements of Affairs of A Freeze & Co and Samuel Lock at 28th February, 1934, read thus—

Assets

	A Freeze & Co.	Samuel Lock.
Plant	£3000	£2500
Furniture	200	10
Motor Car	—	200
Stocks	1500	850
Loan	—	500
Debtors	3200	1400
Bank	—	800
Cash	40	20
	£7940	£6280

Liabilities

		A Freeze & Co.		Samuel Lock.
Creditors	£3590		£7280	
Bills Payable	1000		—	
Accrued Charges	100		—	
Bank	1250		—	
		5940		7280
Excess of Assets or Liabilities,		£2000		£1000

A Freeze and Samuel Lock are the respective owners of the above businesses and it has been agreed that the two concerns be amalgamated, for which purpose the following valuations were agreed on—

	A Freeze & Co	Samuel Lock
Plant	£4000	£5200
Furniture	100	150
Motor Car	300	50

It was also arranged that prior to the amalgamation A Freeze introduces Cash into his business of an amount to leave in Bank £500 after meeting his obligations on Bill Payable Account. It was also agreed that Samuel Lock should introduce sufficient Cash to reduce his Creditors by £2000 and to make his Bank Account also in credit by £500 Presuming these arrangements have been carried out, give Journal Entries necessary to open the Books of the new Firm, viz, Freeze, Lock, & Co, and frame Balance Sheet as at formation [20]

4 (*From the Royal Society of Arts*)

George McArthur and Arthur Hadley were equal partners McArthur died on December 30th, 1919. Accounts were prepared at the close of the financial

year (December 31st), when it was found, after ascertaining and crediting the profit for 1919 in the ordinary way, that the Partners' Accounts stood as follows McArthur, Capital Account, £8000, Current Account (Credit Balance), £962 Hadley, Capital Account, £7000, Current Account (Credit Balance), £852

It was agreed with McArthur's Executors that the value of the Goodwill, which had not hitherto appeared in the Books, should be fixed at £3000, and that the assets and liabilities should be reviewed Valuations were made with the following results · The Book value of the Plant and Machinery was reduced by £500, the Reserve for Bad Debts was found to be excessive by £200, the Stock was under-valued by £350, the Sundry Creditors were overstated by £670; and the Patents (Book Value £300) were held to be of no value

Submit the Partners' Accounts as they would appear in the Revaluation Balance Sheet

QUESTIONS

1 Briefly explain the different kinds of partners

2 What is the "Partnership Deed"? Give a list of the more important matters dealt with in the deed

3 In the absence of any agreement among the partners, what are the rules in regard to profit-sharing and the introduction of new partners?

4. Give a list of the main rights and liabilities of partners with a short explanation of each

5. State shortly, the provisions of—

The Limited Partnership Act, 1907
The Registration of Business Names Act, 1917

6 In what different ways can an incoming partner pay for his share of goodwill premium?

7 What is meant by Survivorship Assurance Policies?

CHAPTER XXVI

DISSOLUTION AND PURCHASE OF PARTNERSHIP FIRMS

DISSOLUTION

SUBJECT to any agreement between the partners, a partnership is dissolved—

(*a*) By expiration of time, if for a fixed term.
(*b*) If "at will," by one partner giving due notice.
(*c*) Consent of all the partners.
(*d*) Death or bankruptcy of a partner.
(*e*) By the partnership becoming unlawful
(*f*) By the Court's decree, e g. in the case of lunacy of a partner.
(*g*) If for a single adventure, then by its termination.
(*h*) At the option of the other partners, if any partner suffers his share of the partnership to be charged for his separate debt.

Notice of Change or Dissolution

Where a person deals with a firm after a change in its constitution he is entitled to treat all apparent members of the old firm as still being members of the firm until he has notice of the change (see also previous chapter).

Rules for Settling Accounts Between Partners After Dissolution

Subject to agreement the following rules apply—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits

(*b*) The assets of the firm, including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order—

1 In paying the debts and liabilities of the firm to persons who are not partners therein

2. In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.

3 In paying to each partner rateably what is due from the firm to him in respect of capital

4. The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible

Before proceeding to give the rules for entries in the books at the time of a dissolution it should be noted that the realization may have the following effects—

1 There may be a profit on realization, which is shared by the partners in the ratio in which they share profits and losses.

2. There may be a loss on realization, which is also shared by the partners in the ratio in which they share profits and losses.

3. There may be a loss, resulting in deficiency of capital, making

it necessary for the partners to bring in cash to enable the creditors to be paid in full

4. There may be a loss, some partners being solvent and others being insolvent and unable to contribute their share of the loss. In England, but not in Scotland, the Garner v. Murray rule applies. (See below.)

5. There may be a loss, and all partners insolvent, the creditors being paid a composition or dividend only.

Accounting Procedure

The winding-up of a business, when it is being dissolved or sold, is recorded through the medium of a "Realization Account," a "Profit and Loss on Realization Account," the Journal, and Cash Book.

1. Transfer book value of all assets (except cash) to the Realization Account. The *contra* entries will close the respective asset accounts in the Ledger.

2 Debit Cash with sums received in respect of assets, and post to the credit of the Realization Account.

3. Credit Cash with payments to creditors and post to debit of Creditor Accounts. Any cash discounts received are debited to the Creditor Accounts and the total credited to the Realization Account.

4. Balance the Realization Account and transfer this to the Profit and Loss on Realization Account, which is also debited with expenses of winding-up, the *contra* entry being Cash.

5 The balance of the Profit and Loss on Realization Account represents either a profit or a loss on winding-up, and should be transferred to the partners' Capital Accounts in the ratio in which they share profits and losses.

6. The partners should be paid cash to the amounts of their balances on the Capital Accounts. All the accounts should then be in perfect balance.

7. In the case of a partner having a deficiency of capital, he must, if he has funds, bring in a sum to equal his shortage. If all are deficient, the ordinary creditors are paid in part only. Where the deficiency leads to a bankruptcy of the firm, the creditors are divided into 5 classes, viz., preferential, fully secured, partly secured, unsecured, postponed. Certain rules apply as to the order of payment of creditors, and the amount which each class is to be paid. Speaking generally, postponed creditors are only paid after the unsecured have been paid in full, whilst preferential rank before them. Secured creditors get the benefit of their security first and rank equally with the unsecured for any outstanding balance. Certain debts, such as deathbed expenses, rank before all others. The complete rules are given in the Bankruptcy Acts.

Example

A and B Grocers, sharing two-thirds and one-third profits respectively, dissolve their partnership on 31st December Their books show as under—

Cash	£320	
Debtors	1000	
Stock	2300	
Fixtures	400	
Creditors		£1020
Capital A		2800
B		200
	£4020	£4020

The Debtors, Stock, and Fixtures realize £3100 The Creditors are paid less £20 discount Winding-up expenses amount to £65. Make out the dissolution accounts.

SOLUTION

LEDGER

Dr TOTAL DEBTORS, STOCK, & FIXTURES A/c *Cr*

To Bal (Debtors)	b/f	£1000	By Realization A/c	£3700
,, (Stock)	b/f	2300		
,, (Fixtures)	b/f	400		
		£3700		£3700

Dr REALIZATION A/c *Cr*

To Debtors	£1000	By Cash (sale of assets)	£3100
Stock	2300	Discounts recd	20
Fixtures	400	P & L on Real A/c c/d	580
	£3700		£3700

Dr. PROFIT AND LOSS ON REALIZATION A/c *Cr*

To Realization A/c b/d	£580	By A's Cap A/c share loss	£430
Expenses of Realization	65	B's do do	215
	£645	(Divided two-thirds and one-third)	£645

Dr. SUNDRY CREDITORS' A/c *Cr*

To Cash	£1000	By Balance b/f	£1020
Discount	20		
	£1020		£1020

Dr. CASH ACCOUNT *Cr*

To Balance	B/f	£320	By Creditor Accounts	£1000
Proceeds of sale of assets		3100	Expenses of Real	65
B's Cap A/c		15	A's Cap. A/c	2370
		£3435		£3435

Dr	Capital Account A			*Cr*
To P & L on Real A/c	£430	By Balance . .	b/f	£2800
Cash . . .	2370			
	£2800			£2800

Dr	Capital Account B			*Cr*
To P & L on Real A/c .	£215	By Balance	b/f	£200
		Cash		15
	£215			£215

As will be seen, the total loss amounts to £645, of which A bears £430 and B £215 B, however, has only £200 of capital to his credit and has therefore to bring in £15 to balance his account.

If, however, it had happened that B was unable to bring in this £15, it is obvious that A would have suffered the loss. If there had been two other partners, in what proportion would they have shared B's default? The rule laid down by the Court in the *Garner* v. *Murray Case* is that in such circumstances the loss will be borne by the other partners, *not as they share profits or losses in trading*, but *pro rata* to the balances of their respective Capital Accounts.

For example, assume a firm dissolving, with three partners, A, B, & C, sharing profits and losses equally, and having the following Capital Account balances before realization: A £1200 credit, B £900 credit, and C with a deficiency of capital amounting to £200, which was increased to £700 after being debited with his share of loss on realization. C is unable to contribute anything towards his deficiency A and B therefore bear this according to the ruling given above, not equally, but in the following way—

A 12/21 of £700 . . .	£400
B 9/21 of £700 . . .	£300

The respective shares are debited to the partners' Capital Accounts and credited to deficient partners' Capital Account, otherwise the work of winding proceeds on lines similar to other forms of realization. The *Garner* v. *Murray* ruling is not thought to apply to Scotland.

PURCHASE OF A BUSINESS

In considering the purchase of an existing business it is frequently desirable to retain the existing name, and to have its exclusive use, in an endeavour to keep the established custom If the business is to be continued without interruption, the new owners taking over the assets and liabilities in whole or in part, it is offered as a "going concern." In such cases, dissolution accounts are prepared for the sale of the business, and a beginning statement in the form of a

Balance Sheet, with appropriate Journal entries, commences the new concern

When giving thought to the purchase of a business as a "going concern," regard must be had to the values placed on the assets and liabilities in the Balance Sheet submitted by the vendor. It is quite usual to call for cautionary guarantees in respect of irrecoverable debts, included in the list of Sundry Debtors, and for liabilities which may turn up, although not mentioned. Stock is usually bought on the basis of a mutual valuation, but expert valuer's certificates should be furnished for such items as plant, fixtures and fittings, buildings, and land.

There should be satisfactory reasons for disposal of the business. Future contingencies should not be overlooked, such as for example, the length of lease in rented premises, or the site remaining as a shopping centre, or even the gradual dereliction of the district through housing activities to meet the newer Government standards in regard to overcrowding.

The purchase price is of great importance. Any figure in excess of the partners' Capital Accounts, in the *verified Balance Sheet,* is necessarily a payment for goodwill, to substantiate which it is usual for the vendor to submit the final accounts and Balance Sheets for the previous three years.

In scrutinizing these accounts, it is essential to bear in mind that no business can continue to function long unless it is making a profit. The ability to earn profits commensurate with the capital outlay is the true criterion of value. If the business is unable to pay its way it is a burden, no matter what values may be placed on the assets in the Balance Sheet. A firm unable to earn profits can have no saleable goodwill.

Some even go further, asserting that a business which can show only the ordinary average returns of other firms in the same line of trade has no goodwill. The percentage return on capital employed differs widely in different classes of shops. Goodwill therefore differs widely, by this definition, and is usually regarded as the extra profits earned over the average percentage (due to location, repute, personality, etc.), and calculations are made accordingly. Assuming a figure of £50 was arrived at by this means, an offer of goodwill payment might be made of £1000, which would be expected to yield 5% on the capital cost, viz. £50, the worth of the goodwill according to the calculation.

The system of calculating the value of goodwill referred to above is sometimes known by the name of *the theory of super-profits* and is an excellent check on the more usual method of taking three to five years' average profits. See also page 149 for example.

It is wise to tabulate the three years' accounts submitted, and to scan them as a whole, for these are often the result of "single-entry"

book-keeping, although erroneously described as Balance Sheets, and are, in consequence, unreliable. For instance, the curious change in the value of the final stock in one year becoming very much less at the beginning of the next year, with corresponding advantage in display of profit by the vendor, in the example given below, shows the advantages of tabulated comparison. The example is taken from an exam. paper in Retail Book-keeping set by the Glasgow and West of Scotland Commercial College

A Goodwait, Grocer, Glasgow, purposes selling his business He has furnished to you the following Balance Sheets as at 31st December, 1933, 1934, and 1935, with relative Profit and Loss Accounts for each year ending these dates You are requested to set out under numerical heads queries arising from the information furnished, along with requests for any additional information which you, as a prospective buyer, deem necessary

BALANCE SHEETS

	1933	1934	1935
Assets			
Book Debts	£800	£1040	£200
Stock	700	900	600
Bank	500	100	700
Cash	20	40	10
	£2020	£2080	£1510
Liabilities			
Creditors	£600	£580	£700
Loan	—	—	300
Law Costs and Damages	—	500	500
Capital	1420	1000	10
	£2020	£2080	£1510

Profit and Loss Accounts

	1933	1934	1935
Sales	£7000	£6000	£5000
Stock	700	900	600
Balance	—	100	—
	£7700	£7000	£5600
Purchases	£5890	£5210	£4360
Stock	1,000	700	400
Wages	300	350	200
Charges	190	700	40
Bad Debts	20	40	—
Balance	300	—	600
	£7700	£7000	£5600

Queries

1 Extraordinary drop in Debtors Reason

2 Analysis of cash receipts would be necessary Taking the Total Debtors, and Creditors' Accounts, as a basis and account of the diminution of capital arising from the loss, and also increase from the loan, there is a large amount unaccounted for

3 The stock figure for 1934 at the end is £900, although the beginning stock for 1935 is said to be £400 A rectification would decrease the profits by £500

4 Reasons for decreases in wages and charges in 1935

5 Were there no bad debts in 1935?

Additional Information Necessary.

8 What is to be the purchase price?

9 Reasons for disposal?

10 Have the accounts been audited by an Accountant?

11 Is the business to be sold as a "going concern"?

12 Are cautionary guarantees to be given in respect of debtors and creditors?

13 Are all assets and liabilities to be taken over?

14 Is stock to be the subject of mutual valuation?

15 What contingencies are likely in regard to future turnover?

16 What are the causes of the poor trading results?

17 Length of lease, and guarantee of renewal at same terms?

Although it is somewhat beyond the scope of this text book it may interest some to consider an example of the ascertainment of *Goodwill* by way of the theory of super profits. The question given hereunder appeared in the accounting paper of the London Association of Certified Accountants in 1935.

Question

From the following information calculate by means of the annuity method, the present figure of goodwill of the "Corner Shop," assuming that the purchaser has agreed to purchase such asset based on the Super Profits each year for five years

The average capital employed in the business is £2400

Annual gross profits before charging a reasonable sum in respect of proprietor's remuneration (say £5 per week)—

Year ended	31st December,	1930	£650
do.	do	1931	£700
do.	do	1932	£750
do	do.	1933	£800
do	do.	1934	£850

The normal rate of interest on capital in the particular type of business is 10 per cent, and the present value of £1 per annum for 5 years discounted at 10% per annum is £3·79.

Answer.

The total profits are		£3750
5 years' remuneration at £260 p an.	£1300	
5 years' interest on capital at normal rate = £2400 at 10 p.c.	1200	
		2500
5 years' super profits		£1250

The assumption is that the total Super Profits will be recovered by the newcomers over the first five years and if paid at the beginning of the period, cash value should be less On the figure given, the average profit for the year, £250, will require to be multiplied by 3 79, which gives a cash figure for the goodwill of £947 10s

(There is a certain ambiguity of language in the question, which may lead some to suppose that it should be the total super profits which have to be multiplied by 3 79 but the resultant sum is obviously too great)

EXERCISES ON CHAPTER XXVI

1 A & B are in partnership sharing profits and losses equally The state of affairs at the date of dissolution is as follows Cash £1450, Debtors £4200, Stock £8000, Fixtures £550, Creditors £2200, Capital—A £8000, B £4000

The fixtures realize £525 Stock sells for £9300, and Debtors at their book value Discount received from creditors amounts to £50 and expenses of winding-up are £72 Close the firm's books

2 C & D dissolve their partnership They share profits two-thirds and one-third respectively The state of affairs at dissolution is as follows—Cash £220, Debtors £1200, Stock £700, Fixtures £170, Creditors £1000, C's Capital £790, D's Capital £500

Fixtures realize £160, Stock realizes £650, Debtors £1100, Cash discounts from Creditors £23 Expenses of winding-up £50 Close the firm's books

3 E & F are in partnership sharing profits equally They dissolve partnership The following are the details in the Balance Sheet at the time of dissolution (The partners bring in cash to meet their deficits so that the creditors may be paid in full)

E's Capital £300 F's Capital £143 Creditors £1500

Cash £43

Stock, Debtors and Fixtures realize £1700 Creditors give £26 discount Expenses of realization amount to £46 Close the firm's books

4 X Y & Z are in partnership, and dissolve X & Y are solvent, but Z is insolvent and unable to make good his deficiency. The partners share profits and losses equally The balances at date of dissolution are as follows—

Cash £1000, Debtors £3000, Stock £2000, Fixtures £500
Z's Capital A/c *Dr* (deficiency) £200.
X's Capital £2000, Y's Capital £1000.

The assets other than cash realize £5200 The creditors are paid and give a discount of £100 Expenses of realization amount to £50 Close the books, applying the *Garner v Murray* ruling

QUESTIONS

1 What is done in the case of a dissolution where all the partners are insolvent and there is an insufficiency of cash realized to pay the creditors in full? Give the classes of creditors in a bankruptcy

2 State briefly some of the important points to be observed before purchasing a business as a "going concern." Of what value is it to tabulate the accounts of the vendor?

3 With reference to the example of tabulated accounts on p 148, from the Profit and Loss Accounts furnish statement showing the cost of goods for sales effected during each of the three years, and also the annual percentage thereof to the turnover (If in doubt, see example, page 183)

CHAPTER XXVII

DEPRECIATION, SINKING FUNDS, AND RESERVES

DEPRECIATION

DESPITE careful repair, fixed assets tend to become less valuable year by year, to become finally fit only to be scrapped or sold at a price far below the original cost. This loss in value is termed depreciation, and if the shrinkage is permanent (sometimes there are temporary movements of value, referred to as fluctuations) then provision should be made yearly in the accounts.

The amount of depreciation to be allowed may be calculated by spreading the cost over the estimated life or usefulness of the asset. Obsolescence arises when the asset requires to be replaced before it has to come fully depreciated (quite common in the case of motor vans, machinery), and the balance of value in the books should then be written off immediately, as the asset no longer exists, thus—

JOURNAL

Depreciation A/c	*Dr*	£28	
Cash . .	*Dr*	50	
To Motor Vans A/c			£78
Sale of Motor Van at a figure below book value, and obsolescent balance written off.			

Every year, depreciation is debited to the Profit and Loss Account, and (except in the case of sinking funds) each of the fixed assets appears in the Balance Sheet at its true value, the depreciation having been credited to the respective accounts.

A number of methods of calculating depreciation are employed Some are given hereunder—

1. *Fixed Instalment System.* The original cost is divided by the number of years and this is the fixed sum written off each year
2. *Reducing Balance System.* For the reason that repairs become heavier in the later years and the fixed instalment system divides the burden unequally, the practice is very common of writing a proportionate percentage off the reduced balance each year, e.g.—

Fixtures Cost . . .	£100
1st Year's Depreciation @ 10% . .	10
	£90
2nd Year's Depreciation @ 10% . .	9
	£81

and so on, each year's depreciation becoming less.

3. *Lease Annuity System.* Costly leases are sometimes written off by this system, which necessitates the calculation of Annuity Tables and credit of interest on investment.

4. *Revaluation System.* This is seldom met with in retail accounting, but is used in factories, where tools are revalued each year and the losses written off.

5 *Insurance Policy System.* In order that cash may be available for replacement of the asset, an insurance policy is sometimes taken out, when the cost of the annual premium is debited to the accounts as representing the amount of depreciation Final adjustments are made when the policy becomes due.

SINKING FUNDS

In the previously described methods of writing off depreciation from fixed assets, it should be observed particularly that each successive Balance Sheet displays the assets at a lesser value, ordinarily their estimated worth at that date. It is preferred, sometimes, to display the assets in the Balance Sheet, year by year, at their *original cost,* and to save up (i e. reserve) the depreciation in a separate account. When this is done, it is usual to set aside an equivalent amount in cash each year, and to invest this sum in gilt-edged securities, and also the accruing interest, so that there will be sufficient cash available to replace the asset when its useful life is over.

The system of separate depreciation and equivalent cash investment is given the name of *Sinking Fund.* Where wasting assets are being depreciated in this way the name of *Depreciation Fund* is given (e.g. plant and machinery), but when the sum is being set aside to repay a loan the word *Redemption Fund* is used.

Example

Sinking Fund created to replace Asset purchased for £2000 with an estimated life of 10 *years Interest on Investments* 5% *and annual instalments* £159.

Dr. DEPRECIATION FUND ACCOUNT *Cr.*

		£	s	d			£	s	d
1st Year Dec 31	To Balance c/d	159	–	–	1st Year Dec. 31	By P. & L. A/c .	159	–	–
2nd Year Dec 31	To Balance c/d	325	19	–	2nd Year Jan 1	By Balance b/d .	159	–	–
					Dec. 31	,, P. & L A/c	159	–	–
						,, Cash (Interest) .	7	19	–
3rd Year Dec 31	To Balance c/d	501	4	11	3rd Year Jan 1	By Balance b/d	325	19	–
						,, P. & L A/c .	159	–	–
						,, Cash (Interest)	16	5	11
					4th Year Jan 1	By Balance b/d .	501	4	11

and so on until interest and instalments amount to £2000, when balance is transferred to the Asset A/c

Dr DEPRECIATION FUND INVESTMENT ACCOUNT *Cr*

		£	s	d			£	s	d
1st Year Dec 31	To Cash .	159	–	–	1st Year Dec 31	By Balance c/d	159	–	–
2nd Year Jan 1	To Balance c/d	159	–	–	2nd Year Dec 31	By Balance c/d	325	19	–
Dec 31	,, Cash (instalment & Int	166	19	–					
		£325	19	–			£325	19	0
3rd Year Jan 1	To Balance c/d	325	19	–	3rd Year Dec 31	By Balance c/d	501	4	11
Dec 31	,, Cash (instalment & Int)	175	5	11					
		£501	4	11			£501	4	11
4th Year Jan 1	To Balance b/d . .	501	4	11					

The following differences should be noted.

1 **Sinking Fund to Replace a Wasting Asset**

(*a*) The asset remains year by year in the Balance Sheet at its original cost.

(*b*) The depreciation is debited yearly to the Profit and Loss Account and credited to the Depreciation Fund Account.

(*c*) A corresponding amount of cash is invested each year in gilt-edged securities, which with interest also invested will be sufficient to provide funds for the replacement at its due time. Investments are posted to Depreciation Fund Investment Account.

(*d*) At the end of the time the Depreciation Fund Account is debited and the Asset Account credited, thus wiping out both. The investments are then realized into cash and a new asset is purchased.

2. **Sinking Fund to Replace a Loan or Other Liability**

(*a*) The same method is adopted as in the other case, but substituting *Redemption* Fund Account and *Redemption* Fund Investment Account. The depreciation instalment, however, must not be posted to the P. & L. A/c, but to its sub-division, entitled *Appropriation of Profits A/c*, for the instalments are not a charge against profits in this case but an appropriation of them. (See LIMITED COMPANIES, for example of Appropriation Accounts, page 170)

(*b*) In the previous case the Depreciation Fund Account was used to close an Asset Account, and the investment to purchase a new one, but in this case the invested money is used to repay the loan, and the Redemption Fund Account remains intact and is transferred to a Reserve Account. This is strictly correct, for each year the instalments have been an appropriation of profits, thus creating an undistributed reserve, so that cash would be available for investment.

The following example illustrates the effect of a Sinking Fund used to clear off a loan—

BALANCE SHEET (before adjustment)

Creditors .	£1000	Sundry Assets	£26,000
Loan	5000	Redemption Fund Investment A/c . .	5000
Capital	20,000		
Redemption Fund A/c	5000		
	£31,000		£31,000

BALANCE SHEET (AFTER ADJUSTMENT)

Creditors	£1000	Sundry Assets .	£26,000
Reserve Account	5000		
Capital . .	20,000		
	£26,000		£26,000

RESERVES

Reserves are of the following kinds—

General Reserves are appropriations of profit with no express view in mind, other than to consolidate the financial affairs of the business They are very common in limited companies, and are made for contingencies, and given the name of Reserve Accounts on the Balance Sheet. When the term Capital Reserve Account is given it indicates that the reserve is not available for distribution by way of dividend, along with profits. When the word *Fund* is used along with a Reserve Account it usually indicates that the sum is being set aside for a specific purpose and that a Sinking Fund is being created by investments in outside securities.

Specific Reserves are charges made against the profits in order to make provision for expected or accrued liabilities, e g. Bad and Doubtful Debts Reserve, Discounts Reserve, Accrual Reserve, etc.

Secret Reserves are those which exist but are not shown on the Balance Sheet. They are usually formed by excessive depreciation of wasting assets, excessive specific reserves, or by the undervaluation or omission of assets.

Depreciation, Sinking Funds, and Reserves of all kinds are dealt with in an exactly similar manner, whether the business be a partnership firm or a limited company, but general Reserve Accounts are seldom met with outside limited company undertakings.

EXERCISES ON CHAPTER XXVII

1 (*From the Institute of Certificated Grocers*)

In 1930 the directors of a limited company decided to create a Sinking Fund to provide for the replacement of plant and machinery. The annual instalment of £79 10s was invested on the 31st December in each year at

5% per annum Show the Sinking Fund Investment Account for the five years to 31st Dec 1934

2 Explain the difference between a Sinking Fund to replace a wasting asset, and one created to repay a liability Illustrate with Balance Sheet examples

3 (*a*) Briefly explain the following Depreciation, Fluctuation, Obsolescence, Repairs, and Scrap Value

(*b*) Distinguish the various methods of providing for depreciation

(*c*) Explain the differences between Reserve Accounts, Reserve Funds, Sinking Funds, and Secret Reserves

4 Jones & Co purchase a lease for a term of five years by a lump sum payment of £550 Show the Lease Account for the whole period, depreciation being written off annually by equal instalments

5 (*From the Institute of Certificated Grocers—Revision*)

John Leslie and Frank Sutton are in partnership, sharing profits and losses as to two-thirds and one-third respectively Interest on capital at 5% is to be credited to the partners annually Their Trial Balance as at December 31st 19— was as follows—

	£	£
John Leslie Capital Account		3600
Current Account Balance January 1st		120
Drawings	1004	
Frank Sutton Capital Account		2000
Current Account Balance January 1st		80
Drawings	847	
Furniture and Fixtures	840	
Sundry Debtors and Creditors	2934	854
Purchases and Sales	37,060	43,021
Stock January 1st	1880	
Carriage Inwards	292	
Returns Inwards and Outwards	125	220
Rent	675	
Salaries and National Insurance	967	
Delivery Expenses	356	
Discounts		331
Reserve for Bad Debts		500
Advertising	800	
Rates	280	
Insurance	62	
Telephone	26	
General Expenses	135	
Printing and Stationery	62	
Postage	117	
Repairs	21	
Electric Light	58	
Bank Charges	6	
Investment £1600 5% Railway Stock at cost	1557	
Interest on Investment		31
Cash at Bank	642	
Cash in Hand	11	
	£50,757	£50,757

The Stock at December 31st, 19—, was valued at £1287

Prepare Trading and Profit and Loss Account for the year ended December

31st, 19 , and Balance Sheet as at that date, after making the following adjustments—

One quarter's rent £225 is outstanding

Rates unexpired £56 Insurance unexpired £13

Six months' interest accrued on Investment (less Income Tax at 4/6 in the £)

Carry forward one-half of the amount spent on Advertising

Accountant's Fee for 19 , forty guineas

Write off Bad Debts £76 and Depreciate Furniture and Fixtures at 7½% per annum

CHAPTER XXVIII

LIMITED COMPANIES STATISTICAL

AN existing business may be converted into a limited company, or a company may be formed to commence a new business with equal facility.

In the former case, the owner need not lose control. He can arrange for a controlling interest and the casting vote in all decisions

The provisions are simple for smaller firms and many are now taking advantage of the Companies Act The capital of a limited company is of a fixed amount, divided into shares, of which each member possesses one or more, and which are transferable by the owner.

The great advantage of a limited company is that liability is limited to the amount of capital, so that in the event of the failure of the company the individual members are not liable beyond the amount of their holdings in the company, e.g. if one's holding was 100 shares of £1 each and 15s per share had already been subscribed, the total liability would be the balance of £25, and once the shares were fully paid up, the liability would be at an end.

Contrast this with the case of a partnership firm where, if the firm fails, each partner is liable for the firm's debts up to the whole amount of his private fortune. This may mean ruination. Retail partnerships are not permitted by law to have more than 20 partners. In a limited company there is no such limit, except that a public limited company must have a minimum of seven members, and a private limited company a minimum of two members and a maximum of fifty.

Most of the smaller retail concerns are changed to *private* limited companies. Such a company differs from a *public* one in the following respects—

1. It restricts its rights to transfer its shares.
2. It limits the number of its members to 50 (exclusive of employees and ex-employees).
3. It is not permitted to invite the public to subscribe for any shares or debentures of the company.

The greatest advantage of a private limited company is that it is not required to file a Balance Sheet with the *Annual Report* to the Registrar, so that its financial position is not the subject of open inspection. The book-keeping in the financial books is the same for both private and public companies.

The *objects* of the company are set out in the *Memorandum of Association*, and its internal rules are set out in the *Articles of Association*. A model set of Articles (called *Table A*) is appended to the Companies Act, 1929. When it is decided to invite the public to subscribe for shares a *prospectus*, or *statement in lieu of prospectus*, is issued. The law costs, registration fees, advertising, incidental to formation, etc., are known as *preliminary expenses* (formation and promotion expenses), and capitalized as such. These expenses are written off out of profits so soon as possible, usually over the first few years. *Underwriting expenses*, if incurred, are also capitalized temporarily, and written off to revenue so soon as convenient.

The management is in the hands of directors, who conduct the business at board meetings, and must hold annual meetings, at which they account to the shareholders for their activities. In the case of a public company, between one and three months after being entitled to commence business a special *Statutory Meeting* and *Statutory Report* is submitted, on specific lines laid down in the Act. The directors cannot proceed to allotment of share applications unless the amount fixed as the *Minimum Subscription* has been reached, or the whole number of shares has been applied for. A *Letter of Allotment* is sent to each allottee, informing him of the shares allotted in his name. *Letters of Regret* are posted to unsuccessful applicants.

Each limited company is compelled by law to keep certain books. These are known as the *Statutory Books and Documents*, and are as under—

1. Register of Members.
2. Register of Directors and Managers.
3. Register of Charges.
4. Minute Book.
5. Annual Return and Summary.

The numerous details in regard to the larger companies are often facilitated by a number of additional statistical books, e.g. Applications Book, Allotment Book, Calls Book, Share Certificate Book, Register of Transfers, Dividend Book, Register of Seals, Register of Probates, Register of Debenture Holders, Debenture Interest Book, Agenda Book.

It is customary when applying for shares to pay a small proportion on application, a further sum on allotment, and the calls as necessary, till the shares be fully paid up, e g. £1 shares could have 2s. 6d. to be paid on application, 2s 6d. on allotment, 5s. for a first call and 10s. for a second and final call. Until the final call be made the shares are said to be partly paid up. To escape further liability some persons prefer to pay the calls before being requested to do so; these are referred to as *Calls in Advance*. Where persons fail to pay

calls when asked, these are referred to as *Calls in Arrear* In the latter case, the shares may usually be forfeited, and the moneys paid on application, allotment, or previous calls confiscated, and credited to a *Forfeited Shares Account.*

The forfeited shares may be re-issued at any price, so long as the company receives the nominal value of the shares, made up between the defaulting and the new members. Any profit made is put to a *Capital Reserve Account*

The work of entering the Registers is statistical and does not appear in any detail in the financial books. The only entries are in the Private Ledger which summarizes the paid-up capital, arrears, and advance payments.

In the *Memorandum of Association* is stated the *Registered Capital* (also known as Nominal and Authorized Capital). This is always stated at the top of the left-hand side of the Balance Sheet, but the amount is entered *short.* The amount unissued is known as *Unissued Capital.*

The Issued Capital refers to the proportion of capital *issued* or *subscribed.* Only a part of the issued capital may be called up, hence the term *Called-up Capital.* There may be some arrears, and if so the net sum received is referred to as *Paid-up Capital,* and this is the only sum to be extended, e.g.—

Registered (Nominal or Authorized) Capital . .	£20,000
Unissued Capital £5000	
Issued and Subscribed Capital	15,000
Called-up Capital 10s per share (£1 shares) .	7500
Calls in arrear	50

On the above statement the *Paid-up Capital* would be £7450.

In recording the capital in the Balance Sheet, it is usual to distinguish the different kinds of share capital, the chief classes of which are given hereunder—

ORDINARY SHARES are those holding no special rights except to participate in the profits, after the claims of superior shares are met

PREFERENCE SHARES give a preference with regard to dividend, and sometimes also priority of return of capital in a winding up.

DEFERRED SHARES rank for dividend after the ordinary shares. They are often referred to as Founder's or Management shares. They usually come into the dividend paying list only after the ordinary dividend has reached a certain percentage.

Dividends are payable only out of revenue, and if there are no profits there can be no dividend. If the preference shares are *cumulative* (and they are always so unless otherwise stated), and the dividend is of a fixed percentage, then any arrears of dividend accumulate, and must be paid off before the ordinary shareholders may participate. If they are *non-cumulative preference shares,* then

each year stands for itself and no arrears of dividend are carried forward

Participating Preference Shares have priority as to a fixed dividend and participate in extra profit distribution after a pre-arranged ordinary share dividend has been paid In ordinary circumstances, of course, capital is not returned to the shareholders, but in special cases *Redeemable Preference Shares* may be issued

In addition to ordinary shares, *preferred-ordinary shares* are sometimes to be met with. These rank for dividend between preference and ordinary shares, whilst *deferred-ordinary shares* rank after the ordinary shares.

Fully-paid-up shares are sometimes changed into *stock*, which may be transferred fractionally, whereas shares are numbered and fixed in amount and must not be sub-divided

It is a common practice for limited companies to issue part of their capital requirements not in shares to members, but by means of loans at a fixed rate of interest Money received by a company in this way is termed its *Loan Capital*, and usually takes the form of debentures, which are acknowledgments of the debt, undertaking to repay principal and interest.

Debentures are of two types First there are *Naked or Simple Debentures*, which give no security. Secondly, there are *Mortgage Debentures*, which create a specific charge on certain of the company's assets as security.

Where debentures are repayable at a fixed date, or upon stipulated notice, or upon being drawn for redemption, they are classed as *Redeemable Debentures*, but when redemption is to be made only in the event of winding-up then they are described as *Irredeemable Debentures*. When the debenture-holders are recorded in the books of the company and transfers are made like shares, the distinctive name of *Registered Debentures* is given. Usually, however, *Debentures to Bearer* are preferred. These are transferable by delivery, and have *Interest Coupons* payable to bearer.

Debenture Bonds are bonds for fixed amounts and must be transferred in their entirety, but *Debenture Stock*, like ordinary stock, may be transferable fractionally.

The following example illustrates how the capital of a company is displayed on the Balance Sheet. (Note that the Nominal Capital is not extended)

BALANCE SHEET

Capital & Liabilities

1 NOMINAL CAPITAL		
5000 £1 6%	Preference Shares . . .	£5000
20000 £1	Ordinary Shares . .	20,000
1000 £1	Deferred Shares .	1000
		£26,000

2 ISSUED & PAID-UP CAPITAL			
3000 £1 6% Preference Shares, fully paid		£3000	
20000 £1 Ordinary Shares, 15/- called .	£15,000		
Less Calls in arrear	25		
		14,975	
1000 £1 Deferred Shares, fully paid .		1000	
			£18,975
Calls-in-Advance			50
3 LOAN CAPITAL			
£5000—5% Mortgage Debentures			5000
4. SUNDRY CREDITORS			
On trade accounts .			4135

If the arrears of calls are not paid, and the shares are forfeited by the directors, the capital would be reduced by, say, £75 (100 shares × 15s. called up). The arrears of £25 would be wiped out and the balance of £50 would be credited to a Forfeited Shares A/c, thus

Paid-up Capital . .	£3000	Pref
	14,925	Ord
	1000	Def
	£18,925	
Forfeited Shares A/c	50	
Calls in Advance .	50	

QUESTIONS ON CHAPTER XXVIII

1 A joint stock company is compelled by law to keep certain books What are they?

2. Give a list of statistical books usually kept by a limited company

3 Define a joint stock company, and mention some of its differences from a partnership.

4 What is a "private company," and what are its advantages?

5 State briefly what "Limited Liability" means

6 Explain the following—Memorandum of Association, Articles of Association, Prospectus, Preliminary Expenses, Table A, Minimum Subscription.

7 Give an explanation of the following kinds of shares—Ordinary, Preference, Deferred, Cumulative and Non-cumulative Preference, Participating Preference, Redeemable Preference, Founders, Preferred Ordinary

8. Define Debentures Explain the difference in the following kinds—Simple, Mortgage, Bearer, Redeemable, and Irredeemable

9 What is the purpose of converting shares or debenture bonds into stock?

10 What are "Calls in Arrear" and "Calls paid in Advance," with reference to the issue of shares?

11 Explain the phrase "Forfeited Shares"

12 (*From the Institute of Certificated Grocers*)

J. Cornish & Co. Ltd was formed for the purpose of purchasing as a going concern the business of Jas Cornish, and was duly registered with a Nominal Capital of £100,000, divided into 50,000 Ordinary Shares of £1 each and 50,000 6% Preference Shares of £1 each

The whole of the Preference Shares and 25,000 of the Ordinary Shares were

offered for public subscription, payable, in respect of each class of shares, as follows—

2s 6d per share on application, Jan 1, 19—
2s 6d per share on allotment, Jan 14, 19—
5s per share on February 1st, 19— (1st Call)
5s per share on March 1st, 19— (2nd Call)

The whole of the shares offered to the public were applied for and duly allotted

The balance of the Ordinary Share Capital was issued to the vendor as part purchase price of the business

200 Ordinary shares issued to N Wall, upon which only the application and allotment money has been paid, were subsequently forfeited in accordance with the Articles of Association for non-payment of calls

Pass the entries necessary to record the above transactions through the books of J Cornish & Co Ltd , and show how they would appear in the Company's Balance Sheet

CHAPTER XXIX

LIMITED COMPANIES: FORMATION ACCOUNTS

In the *financial* books, limited company accounting differs very little from that of ordinary partnership firms The partners' Capital and Drawings Accounts in the Private Ledger are, of course, non-existent, but instead accounts are raised for the different kinds of capital. Accounts are also necessary to record the sums received on application and allotment (usually combined in an *Application and Allotment Account*), and for the various calls, in *First, Second, etc., Call Accounts*. When the shares are issued at their full value, i.e. at par, only the Capital and Shareholders' Accounts will be necessary. The others are not required. If the shares, etc, are issued at a premium, i.e at more than par, then the surplus is recorded in a *Share Premium Account.*

"Short" receipts (debit balances) on the Allotment and Call Accounts are known jointly as "*Calls in Arrear,*" whilst "Over-payment of Calls" are referred to as "*Calls in Advance,*" and are credit balances.

Some examples are now given—

1 Issue of Shares and Debentures at Par, and Payable in Full

Example A limited company issued at par 20,000 Ordinary Shares, 10,000 Preference Shares, and £5000 5½% Mortgage Debentures in bonds of £25 each Show the book entries

Solution—

JOURNAL

Ordinary Shareholders	*Dr*	£20,000	
To Ordinary Share Capital			£20,000
20,000 shares of £1 each			
Preference Shareholders	*Dr*	£10,000	
To Preference Share Capital			£10,000
10,000 Shares of £1 each			
Debenture Holders	*Dr.*	£5000	
To 5½% Mortgage Debentures			£5000
£5000—5½% Mortgage Debentures			

Dr CASH BOOK—RECEIPTS SIDE

To Ordinary Shareholders	£20,000
Preference do	10,000
Debenture Holders	5000

PRIVATE LEDGER

Dr ORDINARY SHAREHOLDERS ACCOUNT *Cr.*

To Ordinary Share Cap. A/c	£20,000	By Cash	£20,000

Dr		Preference Shareholders Account	*Cr.*
To Preference Share Cap A/c	£10,000	By Cash . . .	£10,000

Dr		Debenture Shareholders Account	*Cr*
To Mortgage Deb A/c	£5000	By Cash .	£5000

Dr		Ordinary Share Capital Account	*Cr*
		By Ordinary Shareholders	£20,000

Dr		Preference Share Capital Account	*Cr*
		By Preference Shareholders	£10,000

Dr		$5\frac{1}{2}\%$ Mortgage Debenture Account	*Cr*
		By Debenture Holders	£5000

Trial Balance

	Dr	*Cr*
Ordinary Share Capital		£20,000
Preference Share Capital . . .		10,000
$5\frac{1}{2}\%$ Mortgage Debenture Account		5000
Cash . .	£35,000	
	£35,000	£35,000

Balance Sheet

Capital		*Assets*	
Ordinary Share Capital	£20,000	Cash . . .	£35,000
Preference Share Capital .	10,000		
$5\frac{1}{2}\%$ Mortgage Debentures	5000		
	£35,000		£35,000

2. Issue of Shares and Debentures at a Premium and Payable in Full

The premium is not regarded as capital but as a gain to the company, but not for distribution in the form of a dividend. Assuming in the previous example that premiums had been received of 2s. for each preference share, and 10% over par for the debentures, the extra cash received would be credited to Premium Accounts, thus—

Journal

Preference Shareholders	*Dr*	£11,000	
To Preference Share Capital A/c . .			£10,000
10,000 shares of £1 each			
To Preference Share Premium A/c. . .			1000
2s. per share on 10,000 shares			
Debenture Holders	*Dr*	£5500	
To Mortgage Debenture A/c . .			£5000
£5000—$5\frac{1}{2}\%$ Mortgage Debentures			
To Debenture Premium A/c . . .			500
10% Premium on bonds			

BALANCE SHEET

Capital		*Assets*	
Ordinary Share Capital	£20,000	Cash	£36,500
Preference Share Capital	10,000		
$5\frac{1}{2}\%$ Mortgage Debentures .	5000		
Preference Share Premium	1000		
Debenture Premium .	500		
	£36,500		£36,500

3. Issue of Debentures at a Discount and Payable in Full

The Debenture Account shows the nominal value of the debentures, and the amount of the discount, which will be a debit balance, is included in the same way as deferred revenue expenditure, among the assets, and should be written off *pro rata* over the period of the debentures, e g. £5000 debentures, issued at 5% discount and fully paid-up would appear thus—

JOURNAL

Debenture Holders .	Dr	£4750	
£5000 Debentures issued at discount			
Debenture Discount A/c			
5% discount on debentures .	Dr	250	
To Debenture A/c			£5000

BALANCE SHEET

Capital		*Property & Assets*	
£5000 Debentures	£5000	Cash	£4750
		Debenture Discount . .	250
	£5000		£5000

4. Issue of Shares at a Discount, etc.

Ordinarily, shares are issued at par or at a premium. They may be issued at a discount only under special conditions and with the sanction of the Court. The entries are similar to those when issuing debentures at a discount, and in the Balance Sheet the Share Discount appears among the assets, until it is written off. *Redeemable Preference Shares* may also be issued, subject to certain conditions, and where the redemption takes place out of profits the shares redeemed are transferred to a Capital Redemption Reserve A/c.

5. Issue of Shares and Debentures Payable in Instalments

The payment of the shares and debentures may extend over a period, application and allotment money being paid at time of issue, and the calls at future times, as the company can usefully employ the capital. The work involved is merely an extension of the previous rules

For the "Shareholders' Account" previously mentioned will be substituted Application, Allotment, and successive Call Accounts,

till the capital is fully paid up. These accounts are squared off by the incoming cash, balances will either represent "Calls in Arrear": (*Dr*) or "Calls in Advance" (*Cr.*).

The undernoted example covers a complete issue of shares and debentures, payable by instalments issues at par, at a premium, at a discount, with arrears and advance payments.

EXAMPLE A limited company is registered with a nominal capital of 15,000 ordinary shares of £1 each, and 5,000 preference shares of £1 each, of which it issued 10,000 ordinary shares at par, and the whole of the preference capital at a premium of 5 shillings per share Both classes of shares were payable 2s 6d on application, per share, and a further 7s 6d per share on allotment (plus the premium in the case of the preference shares), also 6s per share on a first call and 4s per share on a final call The final call was applied to only the ordinary shares Two hundred ordinary shares were unpaid as to the final call, and fifty preference shares were fully paid up

£2,000 5% Debentures were issued at a discount of 10%, 25 per cent on application, 25 per cent on allotment, and the balance at the time of the first call on the ordinary shares

Solution—

JOURNAL

Application A/c (Ord Shares)	*Dr*	£1250	
Allotment A/c (Ord Shares)	*Dr*	3750	
To Ordinary Share Capital A/c			£5000
2/6 on Application and 7/6 on Allotment			
First Call A/c (Ord Shares)	*Dr*	£3000	
To Ordinary Share Capital A/c			£3000
6/- per share.			
Second and Final Call A/c	*Dr*	£2000	
To Ordinary Share Capital A/c			£2000
4/- per share.			
Application A/c (Pref Shares)	*Dr*	£625	
Allotment A/c (Pref Shares)	*Dr.*	3125	
To Preference Share Capital A/c			£2500
2/6 Application & 7/6 Allotment			
To Preference Share Premium A/c			1250
5/- per share.			
First Call A/c (Pref Shares)	*Dr*	£1500	
To Preference Share Capital A/c			£1500
6/- per share.			
Debenture Discount A/c	*Dr*	£200	
To Debentures A/c			£200
10% of £2000.			
Application A/c (5% Debentures)	*Dr*	£500	
Allotment A/c (5% Debentures)	*Dr*	£500	
To 5% Debentures A/c			£1000
25% Application & 25% Allotment on £2000			
First and Final Call A/c	*Dr*	£800	
To 5% Debentures A/c			£800
40% of £2000.			

Dr CASH BOOK, RECEIPTS SIDE

To Application A/c	(Ordinary Shares)	£1250
do	(Preference Shares)	625
do	(Debentures) .	500
Allotment A/c	(Ordinary Shares)	3750
do	(Preference Shares) .	3125
do	(Debentures) .	500
First Call A/c	(Ordinary Shares) .	3000
do	(Preference Shares, including advance payments)	1510
do	(Debentures A/c) . .	800
Second Call A/c	(Ordinary Shares, less arrears) .	1960

LEDGER

Dr APPLICATIONS AND ALLOTMENT ACCOUNT (ORDINARY SHARES) *Cr.*

To Ordinary Share Cap A/c	£1250	By Cash	£1250
Ordinary Share Cap A/c	3750	Cash	3750

Dr FIRST CALL ACCOUNT (ORDINARY SHARES) *Cr*

To Ordinary Share Cap A/c	£3000	By Cash .	£3000

Dr SECOND & FINAL CALL A/C (ORDINARY SHARES) *Cr*

To Ordinary Share Cap A/c	£2000	By Cash	£1960
		Balance (Calls in arrear) c/d .	40
	£2000		£2000
To Balance (calls in arrear) b/d	40		

Dr APPLICATION & ALLOTMENT ACCOUNT (PREFERENCE SHARES) *Cr*

To Pref Share Cap A/c	£625	By Cash .	£625
Pref. Share Cap. also Premium A/c	3125	„ (Shares & Premium)	3125

Dr. FIRST CALL ACCOUNT (PREFERENCE SHARES) *Cr.*

To Pref Share Cap A/c	£1500	By Cash .	£1510
Balance (Calls in advance) c/d	10		
	£1510		£1510
		By Balance (Calls in advance) b/d .	10

Dr ORDINARY SHARE CAPITAL ACCOUNT *Cr*

		By Applic & Allot A/c . .	£1250
		Applic. & Allot A/c .	3750
		First Call A/c . .	3000
		Final Call A/c .	2000

Dr PREFERENCE SHARE CAPITAL ACCOUNT *Cr*

		By Applic & Allot A/c .	£ 625
		Applic & Allot A/c .	1875
		First Call A/c	1500

Dr PREFERENCE SHARE PREMIUM ACCOUNT *Cr*

		By Applic & Allot A/c .	£1250

Dr 5% DEBENTURES ACCOUNT *Cr*

		By Applic & Allot A/c	£500
		Applic & Allot. A/c .	500
		First & Final Call A/c . . .	800
		Debenture Discount A/c	200

TRIAL BALANCE

	Dr	Cr
Ordinary Share Capital		£10,000
Preference Share Capital		4000
5% Debentures		2000
Preference Share Premium		1250
Debenture Discount	£200	
Calls in Arrear	40	
Calls in Advance		10
Cash	17,020	
	£17,260	£17,260

BALANCE SHEET

Capital			*Assets*	
Nominal Capital			Cash	£17,020
15,000 Ord Shares £1 each	£15,000		Debenture Discount	200
5000 Pref do do.	5000			
Paid-up Capital				
5000 £1 Pref Shares, 16s paid		£4000		
10,000 £1 Ord Shares, fully paid	£10,000			
Less calls in arrear	40			
		9960		
Calls in Advance (Pref Shares)		10		
Preference Share Premium A/c		1250		
5% Debentures		2000		
		£17,220		£17,220

Debenture Discount A/c (not shown) would be a debit balance in the Nominal Ledger till written off

EXERCISES ON CHAPTER XXIX

1 A limited company issued, at par, 2000 Ordinary Shares of £1 each and 100 Debenture Bonds of £10 each, which were subscribed and fully paid up Make the entries necessary to record the transactions

2 A limited company issued 1000 Preference Shares of £5 each at £5 5s per share and £2000 5% Mortgage Debentures at a discount of 10%, which were all subscribed and fully paid up Make Journal, Cash Book and Ledger entries, draw up Trial Balance and Balance Sheet

3 In the case of a limited company what accounts in the Private Ledger may be used to supersede the "Shareholders' A/c," and when are these accounts necessary?

4 Can shares be issued at a discount? What is meant by redeemable Preference Shares?

5 A limited company issued £8000 Debentures in bonds of £100 each payable 15% on application, 35% on allotment, and the balance six months later, all of which was duly paid. Make the necessary entries, and show also the Balance Sheet

6. A limited company with an authorized capital of £60,000 in £1 shares, issued 50,000 shares, payable 3s 6d per share on application, 4s per share on allotment, 5s per share in two months and another 5s in four months, and the balance as and when required The allotment money was paid in full, but one shareholder failed to pay the second call of 5s on 200 shares, and another shareholder who held 100 shares paid up the uncalled amount to save further calls. Make Journal, Cash Book, and Ledger entries to record the above transactions, and show the company's Balance Sheet

7 The Multiple Traders, Limited, was floated with an Authorized Capital of £50,000, divided into 1000 5½% Cumulative Preference Shares of £10 each, at a premium of £1 per share, and 40,000 Ordinary Shares of £1 each One half of each class of share was issued and fully subscribed The capital was called up as follows—

Jan	1	On both classes of share, 2s 6d per share on application and 2s 6d per share on allotment
Mar	31	On both classes of share, 5s per share as a first call
June	30	On Ordinary Share Capital only, 10s. per share as a second and final call

At the same time 100 5% Mortgage Debenture Bonds of a nominal value of £25 each were issued at a discount of 10% Five per cent of the nominal value was payable on application, and the balance on allotment These were also fully subscribed

One party holding 100 ordinary shares failed to pay the second call, and another holding 10 preference shares paid his shares in full

Show the Journal entries, Cash Book, Private Ledger, Trial Balance to record the above transactions

CHAPTER XXX

LIMITED COMPANIES FINAL ACCOUNTS AND BALANCE SHEET

THERE are some points of difference between the final accounts and Balance Sheet of a limited company and those of a partnership firm, and these are mentioned in the notes on limited company accounts hereunder—

1. *Trading Account.* This is framed exactly like that of an ordinary partnership firm

2 *Profit & Loss Account.* This is formed in the same way as in an ordinary partnership firm, but includes transfer fees on the credit side, and directors' fees and debenture interest on the debit side. The balance of this account is carried to an Appropriation of Profits Account.

3. *Appropriation of Profits Account* This is a sub-division of the P. & L. A/c for the period. Interim or final dividends are debited to this account, also sinking fund appropriations, if to replace a loan or a liability, and ordinary appropriations to General Reserve Accounts. Amounts written off goodwill are also debited to this account Note that in the Balance Sheeet the balance of his account is referred to as the Profit & Loss A/c Balance, and may be either a debit or a credit one It also appears thus in the Trial Balance, but this balance must be brought forward to the Appropriation A/c. It is quite a common mistake of students to carry the balance to the credit of the P. & L. A/c, owing to its misleading title.

4 *Balance Sheet.* On the Assets side the property heads the list and cash concludes it, which is exactly opposite to the case in an ordinary partnership firm The lay-out is given hereunder—

BALANCE SHEET

Capital & Liabilities		*Property & Assets*	
(i) Capital—		(i) Property held by the company	
(a) Number of shares		(ii) Debts owing to the company	
(b) Amount paid per share		(iii) Cash and investments	
(c) Calls in arrear			
(d) Forfeited shares			
(ii) Debts and liabilities of the company			
(iii) Reserve Funds.			
(iv) Profit and Loss Account			
	£——		£——

It is usual to add a footnote on the face of the Balance Sheet stating any contingent liabilities, not acknowledged, but which the company may be called upon to pay.

Adjustments of all kinds are dealt with in the same way as in ordinary partnerships An accrual reserve is necessary where the manager is given a commission at a certain percentage of the net profit. Calls are often forfeited at the end of the financial year prior to making out the Balance Sheet, and a combined Journal entry is necessary.

Example

100 shares of £1 each, 15s called, in arrears as to two calls of 5s each, and forfeited

JOURNAL

Share Capital A/c (full amount called up)	*Dr*	£75	
To Forfeited Shares A/c (sum paid)			£25
First Call Account			25
Second Call Account			25
Shares forfeited as per resolution dated			

Assuming these shares are re-issued at a later date to J Dickson at £5 less than their nominal value (the legal limit would be £25, i e the total profit of the company on forfeiture), the entry would then be—

JOURNAL

J Dickson	*Dr.*	£70	
Forfeited Shares Account	*Dr.*	5	
To Share Capital Account			£75
Re-issue of forfeited shares at a discount as per resolution			
Forfeited Shares Account	*Dr.*	£20	
To Capital Reserve A/c			£20
Transfer of profit on re-issue of forfeited shares			

Upon the payment of Dividends and all other annual charges, such as Interest on Loans, Ground Rent or Feu Duty, the question of Income Tax arises inevitably. The firm or person making the payment *must* deduct Income Tax at the standard current rate and account for the sum so deducted to the Crown

Example

	£	s.	d.
Ground Rent	10	–	–
Less Income Tax (1935–36) (4s 6d. in £)	2	5	–
Net payment	£7	15	–

Dividends, Interests, etc., will be received with the tax deducted, when they are referred to as "Net Dividends," "Net Interests," etc., to distinguish them from other receipts which are received in full.

Example of Trial Balance, Balance Sheet, etc.

The following example of a limited company Trial Balance, with final accounts and Balance Sheet, should be studied closely. The closing entries have been omitted and all adjustments have been excluded so that the ordinary working may be thoroughly understood.

TRIAL BALANCE

	Dr	Cr
Personal Ledgers		
Sundry Debtors—		
As per list attached	£1200	
Sundry Creditors		
As per list attached		£880
Impersonal Ledgers		
Nominal Accounts—		
Purchases Account	7600	
Sales Account		10,000
Salaries and Directors' Fees	1000	
Management Expenses and Charges	802	
Discounts received		100
Transfer Fees		30
Interim Dividend	250	
P & L Credit balance		150
Real Accounts—		
Stock at 1st Jan	1108	
Property	4350	
Motor Van	300	
Plant and Machinery	200	
Fixtures and Fittings	150	
Cash in Hand	53	
Cash at Bank	1647	
Private Accounts—		
Ordinary Share Capital (called-up)		£5000
Preference do do (do)		1000
Ordinary share calls in arrear	50	
Preference Share Premium		200
Mortgage Debentures		750
Reserve Account		600
	£18,710	£18,710

Stock as per valuation at 31st December 19— . £1050

Registered Capital

7000 Ordinary shares of £1 each, of which 5000 have been issued.
3000 Preference Shares of £1 each, of which 1000 have been issued

Dr TRADING ACCOUNT FOR THE YEAR ENDED 31ST DEC 19— *Cr*

To Stock at 1st Jan	£ 1108	By Sales (net)	£10,000
Purchases (net)	7600		
	8708		
Less Stock at 31st Dec	1050		
	7658		
Balance (Gross Profit) c/d	2342		
	£10,000		£10,000

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DEC 19—

Dr *Cr*

To Salaries, & Directors' Fees	£1000	By Balance (Gross profit) b/d	£2342
Management Expenses & Charges	802	Discount received	100
By Balance (net profit) c/d	670	Transfer Fees	30
	£2472		£2472

Dr APPROPRIATION OF PROFITS ACCOUNT *Cr*

To Interim Dividend on Pref Shares	£250	By Balance (net profit) b/d	£670
Balance carried forward	570	Cr Bal. brought forward	150
	£820		£820

BALANCE SHEET AS AT 31ST DEC 19—

CAPITAL & LIABILITIES			PROPERTY AND ASSETS		
Registered Capital			Property		£4350
3000 £1 Preference Shares	£3000		Motor Vans		300
7000 £1 Ordinary Shares	£7000		Plant & Machinery		200
	£10,000		Fixtures and Fittings		150
			Trade Stock		1050
			Sundry Debtors On trade a/cs		1200
Issued & Paid-up Capital			Cash in Hand	£ 53	
1000 £1 Preference Shares fully paid		£1000	Cash at Bank	1647	
5000 £1 Ordinary Shares Called-up	£5000				1700
Less calls in arrear	50				
		4950			
		£5950			
Preference Share Premium A/c		200			
Mortgage Debentures		750			
Reserve A/c		600			
Sundry Creditors On trade a/cs		880			
P & L A/c b/f	£150				
Add net profit for year	670				
	820				
Less Pref Interim div.	250				
		570			
		£8950			£8950

EXERCISES ON CHAPTER XXX

1 (*From the London Association of Certified Accountants*)

(*a*) What steps must be taken by a limited company where it has been decided to forfeit shares for non-payment of a call?

(*b*) Give the Journal entries necessary to record the following—A Hurst applied for and received an allotment of 300 shares of £1 each in the Alston Co Ltd He failed to pay the second call of 5s and also the final call of 5s and the company duly forfeited the shares

2 A B & Co Ltd. has a Nominal Capital of £1000 in £1 ordinary shares, of which 500 have been called up and fully paid £200 of $5\frac{1}{2}$% Debentures have been issued From the following Trial Balance at 31st Dec prepare final accounts and a Balance Sheet

TRIAL BALANCE	*Dr* £	*s*	*d*	*Cr* £	*s*	*d.*
Purchases	£3090	1	8			
Sales Cash				£2317	18	–
,, Credit (net)				985	16	6
Salaries	175	13	–			
Furniture & Fittings	127	10	–			
Motor Vans A/c	45	–	–			
Cash at Bank	100	6	–			
Cash in Hand	3	15	–			
Sundry Debtors & Creditors	206	13	–	203	4	6
Discounts	48	8	8	137	3	2
Carriage	9	2	–			
Trade Expenses	21	3	6			
Rent & Rates	100	15	–			
Motor Van Running	39	1	–			
Reserve for Doubtful Debts				4	5	6
Share Capital A/c				500	–	–
$5\frac{1}{2}$% Debentures				200	–	–
P. & L A/c Cr Balance				13	7	6
Bad Debts	7	6	–			
Bank Charges	1	7	–			
Stock in Hand at 1st Jan	410	13	4			
Rent receivable				25	–	–
	£4386	15	2	£4386	15	2

Stock on Hand at 31st Dec. £513 13s 6d

3 The Retailing Co Ltd was registered with an authorized capital of £15,000 divided into 10,000 Ordinary Shares of £1 each, and 500 £10—6% Preference Shares All the Preference Shares were issued and fully paid up £8000 of Ordinary Shares were issued and 15s called up on each share There are calls in arrear on the last call of 5s amounting to £25, and there are calls in advance amounting to £100

The following Trial Balance was extracted as on 31st Dec

	Dr	*Cr*
Ordinary Share Capital		£6000
,, Shares Calls in Arrear	£25	
,, ,, ,, Advance		100
Preference Share Capital		5000
Preliminary Expenses	100	
Transfer Fees		12
Goodwill	1000	
Stock at 1st Jan.	2200	
Property	8000	
Motor Vans	600	
Fixtures & Fittings	320	
Cash at Bank	642	
Cash in Hand	53	
Debentures 5%		1000
Interest on Debentures	25	
Sundry Debtors	1200	
Sundry Creditors		634
Discounts Received		220
Sales (net)		20000
Purchases	15000	
Charges & expenses of Management	3801	
	£32,966	£32,966

Prepare final accounts and Balance Sheet as at the 31st Dec. When preparing accounts the following matters must be taken into consideration—

1 Write off one-third Preliminary Expenses A/c

2 Write 10% depreciation off Fixtures, 2½% off Property, and 25% off Motor Vans.

3 Provide for Interest due for six months on Debentures

4 Stock at 31st Dec was valued at £3000

5. Reserve 5% on Trade Debtors for Doubtful Debts and 2½% for Discounts

CHAPTER XXXI

LIMITED COMPANIES: CONVERSIONS, ABSORPTIONS, AND AMALGAMATIONS

In the three preceding chapters joint stock companies have been dealt with; first from a statistical viewpoint, secondly as to their formation, and thirdly as to their form of presentment of accounts. In this chapter it is proposed to illustrate the special entries necessary when existing firms and companies are vended.

PURCHASE OF A PARTNERSHIP FIRM

Joint stock companies are frequently formed to purchase existing partnership firms. The proprietors of the firm are termed the *vendors*, and the money paid for the business is the *purchase price* Very often, to give confidence to the investing public, part of the purchase price is payable in shares in the new company. The firm may be taken over as it stands, i.e. as a *going concern*, but there is no general rule. Creditors, debtors, investments, and cash, are frequently kept out of the agreement Additional payment is commonly made for goodwill.

A very simple way to incorporate the purchase details in the financial books of the company is to make a Journal entry similar to an opening entry, but substituting the Capital Account with a Vendor's Account. The Vendor's Account is closed by debits of cash paid, and the value of shares given in part payment, e.g.—

Messrs. R & W Castle was purchased by R. & W Castle Ltd as a going concern for the sum of £10,000 payable one-half in cash and the balance in £1 shares in the new company This joint stock company was registered with a capital of £12,000 divided into £1 Ordinary Shares to the value of £7000 and 5000 £1 Preference Shares

Undernoted is the vending Balance Sheet The difference between the capital and the purchase price is the payment for goodwill

BALANCE SHEET

Creditors	£6000	Cash & Bank	£1100
Capital	8400	Debtors	4000
		Stock	3000
		Fixtures	300
		Premises	6000
	£14,400		£14,400

The balance of the ordinary shares and all the preference shares were issued to the public at par and were fully subscribed and paid-up Make the necessary Journal and Cash Book entries, and draft the commencing Balance Sheet of the new company.

JOURNAL

	Dr	Cr
Cash and Bank	£1100	
Debtors	4000	
Stock	3000	
Fixtures	300	
Premises	6000	
Goodwill	1600	
To Creditors		£6000
,, *Vendor's A/c*		10,000
Purchase Price and Assets and Liabilities taken over		
Vendor's A/c	10,000	
To Cash		5000
,, Ord Share Capital		5000
Payment of purchase price		
Ordinary Shareholders	2000	
To Ordinary Share Capital		2000
2000 £1 shares issued		
Preference Shareholders	5000	
To Pref Share Capital		5000
5000 £1 shares issued		

Dr CASH ACCOUNT *Cr.*

To Balance	b/f	£1100	By Vendors		£5000
,, Ordinary shareholders		2000	,, Balance	c/f	3100
,, Preference do.		5000			
		£8100			£8100

BALANCE SHEET

Capital and Liabilities		*Property and Assets*	
Authorized & Paid up Capital		Premises	£6000
Ordinary Share Capital,		Fixtures	300
7000 £1 Shares	£7000	Goodwill	1600
Preference Share Capital,		Stock	3000
5000 £1 Shares	5000	Debtors	4000
Creditors	6000	Cash & Bank	3100
	£18,000		£18,000

It is assumed that the payment to the Vendors was in £1 Ordinary shares

ABSORPTIONS

Joint stock companies are frequently absorbed by others, and where the absorbing company takes over control to a date before incorporation, any profits made before incorporation are not available for distribution as dividend, but may be used to write off capital assets, goodwill, or put to a special Reserve Fund. These profits are referred to as "Profits earned prior to incorporation."

Vending companies close their books through the medium of a

Realization Account, which receives all the open accounts in the Ledger and is balanced with the receipt of shares in payment. The purchasing company makes entries exactly similar to those shown for the purchase of partnership firms.

AMALGAMATIONS

The difference between the value of the assets and the liabilities of a business house, represents its selling value (excluding goodwill). Where the Balance Sheet exhibits these figures truly, the capital of the proprietors and the selling value correspond (excluding the question of goodwill). More frequently, adjustments have to be made, some assets being more valuable, others less. Where the fixed capital system is used, the partners' Current Accounts have also to be taken into account, credit balances being added to the Capital Accounts and debit ones subtracted. In cases where Limited companies are being amalgamated their value will be the sum of the addition of the net paid-up Capital, Reserve Funds, and credit balances brought forward on the Profit and Loss Accounts. assuming that the values of assets and liabilities shown are the true values.

As a rule, when two or more limited companies amalgamate, a fresh company is formed, and the shareholders in each of the existing companies receive proportionate holdings in the new company. The number of shares in the new company would depend not only on the value of the shares held, but Reserve Funds and P. & L. balances would also be included. For example, two companies combine, the one with net assets £8000 and the other with net assets £9000 made up as under—

	A	B
Paid-up Capital . .	£4000	£6000
Reserve Fund	2500	2000
P. & L. A/c Cr Bal .	1500	1000
	£8000	£9000

The new capital will be £17,000. Existing shareholders in A company will receive two shares in the new company for every one held in the old company, and B's shareholders will receive three shares in the new company for every two shares held previously.

LIQUIDATION

When a company is unsuccessful in trading, it is wound-up. A liquidator is appointed to realize the estate, pay the creditors, and return any surplus to the shareholders.

EXERCISE ON CHAPTER XXXI

1 (*From the Royal Society of Arts*)

W Brown, a wine and spirit merchant, had on Dec 31st the following assets—

Cash at Bank	£500
Cash in Hand	50
Stock in Trade	550
Owing by H Johnson	50
Bill Receivable (due 12th Jan next)	250
Office Furniture	100
	£1500

His liabilities on the same date were—

Due to A Robinson	90
,, ,, W Walters	60
Bill Payable (due 6th Jan next)	50
	£200

On Jan 1st a company was formed with a capital of £2500 in £1 shares, to purchase W Brown's business, and it was agreed that the purchase price should be an amount equal to his capital in the business on Dec. 31st last, to be paid as to £500 in cash, and the balance in fully paid shares, the company taking over all the assets and liabilities of the business The remaining shares were issued to the public and were duly subscribed, allotted, and paid up

You are required to make the necessary entries recording the above

2 Undernoted is the Balance Sheet as on Dec 31st of Messrs Ronald and Wilkie, who are equal partners

BALANCE SHEET AS AT DECEMBER 31ST

Sundry Creditors	£4000	Cash at Bank	£1000
Capital—		Investments	2000
Ronald	19,000	Debtors	4000
Wilkie	11,000	Stock	10,000
		Fixtures	2000
		Buildings	15,000
	£34,000		£34,000

A limited company with a registered capital of £50,000 in ordinary £1 shares was formed to acquire and carry on the business

The vendors guaranteed the book debts, and agreed to pay off the creditors. The company took over the business, with the exception of the cash and investments, the purchase being price agreed at £32,000.

The purchase price was paid, as to £30,000, in ordinary shares, and as to the balance in cash

The balance of the share capital was taken by the public and fully paid up

Make the necessary entries in the books of the company

3 Two limited companies whose Balance Sheets are given hereunder decide to unite Show the Balance Sheet of the new company and also determine the number of shares each amalgamating company is entitled to receive in the new concern

BALANCE SHEET OF A & Co LTD

Liabilities		*Assets*	
Capital 6000 shares of £1 each	£6000	Property	£4000
Trade Creditors	300	Fixtures	1000
Reserve A/c	1000	Stock	2000
P. & L A/c Credit Balance	2000	Debtors	1900
		Bank	400
	£9300		£9300

BALANCE SHEET OF B. & Co LTD

Liabilities		*Assets*	
Capital 16,000 shares of £1 each	£16,000	Freehold property	£8000
Trade Creditors	1200	Fixtures, etc	1600
Reserve A/c	3000	Trade Stock	4000
P & L A/c Credit Balance	1000	Debtors	2800
		Investments	3000
		Bank	1800
	£21,200		£21,200

4 What is meant by "winding-up" a limited company? What are duties of a liquidator in a "winding-up"?

5 (*From the Institute of Certificated Grocers*)

(*If the dual final accounts required present difficulty, these may be delayed until the next chapter has been read*)

Messrs Watson and Harwood are the proprietors of two shops which they carry on in partnership, sharing profits and losses as to 3/5ths and 2/5ths respectively. Their position as at the 31st December, 1928, was, as shown by their Balance Sheet, as follows—

Liabilities	£	*Assets*		£
Sundry Creditors	875	Cash in hand		41
Watson Capital	2000	Cash at Bank		350
Harwood Capital	1400	Sundry Debtors		1642
Watson Current Account	101	Stock—Brixton	£1085	
Harwood Current Account	33	Fulham	791	
				1876
		Fixtures and Fittings		500
	£4409			£4409

As from the 1st January, 1929, they decided to convert the business into a private limited company, which was duly formed under the name of Watson, Harwood and Company, Limited, with a Nominal Capital of £5000 divided into 5000 Ordinary Shares of £1 each The transfer to the company took place on the 1st January pursuant to the following terms and conditions—

(1) The company to take over all assets and liabilities at the above valuations
(2) The purchase price was agreed at £4534
(3) Each partner to be paid in cash the balance of his Current Account

(4) A Debenture for £500 at 5% interest per annum to be issued to Watson.
(5) 1800 shares to be allotted to each partner, credited as fully paid.
(6) The balance due to Watson to be transferred to a Loan Account
(7) The Preliminary Expenses amounting to £90 to be paid by the company

In addition to the balances resulting from the above transactions, the following Ledger balances were extracted from the books as at 31st December, 1929—

	Brixton	*Fulham*
Purchases	£12,242	£8134
Sales	13,658	9221
Sundry Debtors	1859	
Staff Wages	473	321
Debenture Interest (half year) (*less* Tax)	20	
Sales Returns	163	105
Purchases Returns	97	72
Discounts Received	263	178
Discounts Allowed	122	71
Insurances	47	36
Rent and Rates	170	145
Lighting and Heating	53	37
Stationery and Advertising	25	31
General Expenses	124	111
Watson, Salary as Manager	450	
Harwood, Salary as Manager		350
Cash in Hand	33	
Cash at Bank	268	

Prepare Trading and Profit and Loss Account for the year ended 31st December, 1929, and Balance Sheet as at that date, after giving effect to the following—

Stock on hand 31st December, 1929—

Brixton	£1107
Fulham	£784

Depreciate Fixtures and Fittings by $7\frac{1}{2}$%
Reserve 5% on Sundry Debtors for Bad Debts.
Note Except where otherwise apparent, all outstanding expenses have been debited to the appropriate accounts and included in Sundry Creditors

6 What considerations would be necessary in determining the purchase price in the sale of a—
Partnership business?
Fixed Capital partnership?
Limited Company?

CHAPTER XXXII

INTERIM, DEPARTMENTAL, BRANCH, AND MULTIPLE ACCOUNTS

WEEKLY and monthly estimates of stock are common in many firms and their purpose is to arrive at estimates of the profit before the end of the financial year. The following example (taken from the Scottish Meat Traders' examination) illustrates the principle in operation—

Sales for week, cash £55, credit £45
Purchases £68 Stocks Monday morning £47, following Saturday morning £30
Annual charges are rent and taxes £82, wages and stamps £120
Other expenses £28 Depreciation £4
What is the estimated weekly profit?

INTERIM TRADING & P & L ACCOUNT

Stock used			
Purchases		£68	
Add reduction in stock —			
on Monday	£47		
on Saturday	30		
	—	17	
		85	
Net Turnover			£100
Establishment Charges			
Rent (one year)	£82		
Wages ,,	120		
Expenses ,,	28		
Depreciation (one year)	4		
One year	£234		
One week		4 10	
		89 10	
Estimated weekly profit		10 10	
		£100 –	£100

Departmental establishments find it impossible to divide out all the expenses directly to the departments concerned. Rent, depreciation, etc., require allocation on an arbitrary basis, usually by a pre-arranged percentage. For instance, rent and rates may be apportioned on floor area, whilst general expenses and administration are usually distributed on the basis of turnover. No hard and

fast rule is possible Each case must be considered on its merits. The Profit and Loss Account is tabulated as shown hereunder—

TABULATED DEPARTMENTAL PROFIT AND LOSS A/c WITH CERTAIN ITEMS ALLOCATED ON A PRE-ARRANGED BASIS

		Total	No 1 Dept	No 2 Dept			Total	No 1 Dept	No 2 Dept
Dec. 31	To Rent (apportioned)	£250	£100	£150	Dec 31	By Gross Profit	£1900	£1025	£875
	Advertising (appor)	100	55	45					
	Gen Exps (appor)	200	120	80					
	Depreciation (appor)	50	30	20					
	Wages & Sal (allocated)	600	320	280					
	Bal (Net profit)	700	400	300					
		£1900	£1025	£875			£1900	£1025	£875

Comparisons between one period and another may be facilitated by the use of an extra column in which the various debits are expressed as percentages of the net sales. It is not uncommon to find tabulation of this kind carried for a few years alongside, fluctuations forming the subject of inquiry.

PERCENTAGE FORM OF TRADING AND PROFIT AND LOSS A/c

	%			%	
To Cost of Stock used	75	£7500	By Net Sales for year	100	£10,000
Rent and Rates	4	400			
Salaries	6	600			
Expenses	7	700			
Depreciation	1	100			
Net Profit	7	700			
	100	£10,000		100	£10,000

These examples of tabulated book-keeping and also those in previous chapters, give some indication of the wide use made of the system as a means of accurate dissection.

Departmental houses apply the principle to ascertain which of the departments are the most remunerative. For instance, in a large grocery store, the counters would be departmentalized, so that there would be different departments for grocery products, bacon and ham products, butter and cheese, fruit, biscuits, cooked meats, and tea, coffee, and cocoa.

Each department would be debited with expenses, etc., directly wherever possible, and the others indirectly by the percentage method, so that the profit in each department could be accurately determined. Ready-money sales in such cases are usually easily divided in the Cash Desks by means of separate files, but credit

sales require analysis in the main office. Inter-departmental transfers are charged and credited to the respective departments at cost. For convenience the departments are given an indicating letter, e.g. Grocery Dept. might be A; Bacon B, and so on.

Purchases for stock are analysed to the departments concerned by means of an Invoice Analysis Book. The following is a typical illustration of such a book—

INVOICE ANALYSIS BOOK

Date	Name	Total	Grocery Products	Bacon, etc., Products	Butter & Cheese	Fruit	Biscuits	Cooked Meats	Tea, etc

Branch and multiple shop firms also make use of tabular books, but the systems differ according to whether the branches have or have not a complete set of books.

Where the branches have not a complete set of books it is usual for the Head Office to keep the books on similar lines to a departmental store.

A few details are necessarily kept at the branch, viz. stock and cash, and where permission has been obtained a Debtors' Ledger for credit sales. Wages and expenses are often met by a "petty cash float." As a rule daily receipts are banked intact.

In cases like these the branch should furnish a *weekly return* as under—

WEEKLY BRANCH RETURN

Year 19 . Week ending

Shop Takings	Cash Sales	Credit A/cs	Outgoings			
Monday	£	£	Cash Balance	b/f	£	£
Tuesday	£	£	Wages		£	£
Wednesday	£	£	Carriage		£	£
Thursday	£	£	Expenses		£	£
Friday	£	£				£
Saturday	£	£				
			Balance in hand			
			Imprest made up			£
Total Banked	£	£	Total in hand			£

Summary of Debtors' Ledger

To Balance b/f		£
,, Sales on credit as per list . . .		£
		£
By Cash recd on A/cs	£	
Disc allowed	£	
Credits (see list)	£	
		£
Balance carried forward		£

The work in the Head Office entails a Personal Account being opened for each branch, in the Ledger, and to this account is debited all stock issued, and wages and salaries, also expenses, whilst credit is given for cash received With a branch doing only a cash trade, the balance of the Branch Account brought forward, will be only for stock (and perhaps furnishings), but where there are credit sales, the book debts are also included in the balance The balance of the account appears in the Balance Sheet, under stock and book debts, these being stated as being at the branch. The difference of the account is carried to the Head Office Profit and Loss Account.

Two difficulties occur in practice. The first is to ascertain the debtors at the end of the period if they are not given on the "Weekly Return." This may be found by adding the debtors at the beginning to the net sales (i.e. gross sales, less returns) and deducting cash received against accounts, plus credits and discounts allowed; in other words making a Total Debtors' Account.

The other difficulty is concerned with the stock and the necessity of having some automatic safeguard to indicate discrepancies when they occur. The best means, wherever possible, is to issue the stock to the branch at *selling price,* using a special *statistical* check column in the Branch Account, thus—

Dr. BRANCH ACCOUNT. *Cr.*

(Check column with stock at selling prices)

	Selling Prices				Selling Prices		
Jan. 1	£100	To Bal. *Stock* B/f	£ 75	Mar 31	£510	By Cash Banked	£510
	50	,, *Debts* ,,	50		2	Stock unaccounted for	
Mar. 31	600	Stock from H O	450		88	Bal Stock . c/d	66
		Wages, etc .	80		150	,, Debts c/d	150
		Rent, etc	30				
		Net Profit . .	41				
	£750		£726		£750		£726
	£88	To Bal Stock . b/d	£66				
	150	,, ,, Debts . b/d	150				

BRANCHES WITH COMPLETE SET OF FINANCIAL BOOKS

Where the branch keeps a complete set of financial books, the branch book-keeping proceeds in the ordinary way, except that the net profit is credited to a Head Office Account, instead of to a Capital Account. Remittances to the Head Office or credits received from the Head Office are debited to this Head Office Account, while the value of stock received from the Head Office is credited to this Account (at cost). Branches of this type are often permitted to purchase from outside sources of supply as well as from other branches.

The accounts are submitted to the Head Office at the end of the period, in summary form. Meanwhile the Head Office has personal accounts for each branch, debiting stock issues therewith and crediting remittances from the branch The net profit from the branch is transferred to the Head Office P. & L. Account and the respective Branch Accounts are debited or credited according to whether there is a profit or a loss. The balance of the Branch Account in the Head Office Ledger should then correspond with the Head Office Account in the branch books, except that it will be on the opposite side. Goods or remittances in transit at balancing time sometimes cause differences which require adjustment, and these appear separately on the Balance Sheet.

In some cases the Balance Sheet issued by the Head Office shows only the net balance of the Branch Accounts, in others the net assets and liabilities are shown together, but the favourite method is to show a Balance Sheet with the items amalgamated under separate headings, as shown hereunder in the appended example, which has been taken from a Glasgow and West of Scotland examination paper.

Worked Examples

1 The Head Office of the Rax Baxo Company, Ltd, is situated at Glasgow, and, in addition, there are Branches at Aberdeen and Edinburgh. The following are the Trial Balances extracted from Head Office and Branch Books at 31st December, 1935—

HEAD OFFICE

Capital (Authorized and Issued)—		
10,000 6 per cent Cum Pref Shares of £1 each	—	£10,000
30,000 Ordinary Shares of £1 each	—	30,000
Plant and Machinery	£20,000	—
Wages and Salaries	6900	
Discount received	—	2200
Purchases	80,000	—
Debtors	13,500	—
Stock	12,300	—
Sales	—	100,000
Charges	5710	—
Reserve	—	2000
Preference Dividend Account—		
Final, 1934—*Less* Tax	225	—
Interim, 1935—*Less* Tax	225	—
Carried forward	£138,860	£144,200

Brought forward	£138,860	£144,200
Ordinary Dividend Account—		
Final, 1934—20 per cent free of Tax	6000	—
Profit and Loss Account	—	8230
Sundry Creditors	—	9920
Additions to Plant	4000	—
Cash at Bank	4700	—
Cash on Hand	360	—
Aberdeen Branch	5250	—
Edinburgh Branch	3180	—
	£162,350	£162,350

ABERDEEN BRANCH

Debtors	£3200	—
Sales	—	£27,400
Charges	1800	—
Stock	4000	—
Purchases	20,000	—
Salaries and Wages	3600	—
Cash on Hand	50	—
Head Office	—	5250
	£32,650	£32,650

EDINBURGH BRANCH

Debtors	£1500	—
Sales	—	£13,700
Damage Claim	1700	—
Charges	950	—
Stock	1300	—
Purchases	10,000	—
Salaries and Wages	1450	—
Cash due to Manager	—	20
Head Office	—	3180
	£16,900	£16,900

The Head Office carry out all the buying of Materials, &c, and credit to their Purchases Account deliveries to the Branches The amount representing "Discount Received" in the Head Office books is allocated annually between the Branches and the Head Office according to the total Purchases charged to each. In addition, the Branches have to bear a Head Office Administrative Charge of £1200 per annum each, which transfer has yet to be incorporated in the books, and for account purposes the requisite relief to the Head Office has to be effected through Charges Account The following provisions have to be made—

Charges Unexpired—		
Head Office		£110
Wages Due and Unpaid—		
Head Office	£600	
Aberdeen	200	
Edinburgh	100	
		900

Stocks at 31st December, 1935—

Head Office	£13,500	
Aberdeen	3200	
Edinburgh .	1500	
		£18,200

Depreciation—

10 per cent on Plant, including additions
Note —Wholly borne by Head Office

Commission—Each Branch Manager is entitled to a commission of 10 per cent on the profits of his branch, the term "profits" to signify "profit before charging commission" In calculating commission for the Manager of the Edinburgh Branch ignore the damage claim paid during the year

Prepare Balance Sheet of the company as at 31st December, 1935, with relative Head Office and Branch Profit and Loss Accounts for the year ended that date

Solution to Question 1

Balance Sheet

Rax Baxo Company, Ltd — As at 31st December, 1935

Liabilities

I Capital—			
Authorized and Issued			
10,000 Cum Preference Shares of £1 each Fully Paid		£10,000	
30,000 Ordinary Shares of £1 each Fully Paid		30,000	£40,000
II. Sundry Creditors—			
On open Account .			9920
III. Accrued Charges—			
Wages—			
Head Office .		£600	
Aberdeen . .		200	
Edinburgh .		100	
		£900	
Commission—			
Aberdeen . .	£20		
Edinburgh	40		
		60	960
IV. Reserve . . .			2000
V. Profit and Loss—			
Balance at credit at date			10,320
			£63,200

Assets

I Plant and Machinery		£20,000	
Add—Additions during year		4000	
		£24,000	
Less—Depreciation at 10% .		2400	£21,600
II. Stocks—			
Head Office		£13,500	
Aberdeen		3200	
Edinburgh .		1500	18,200
III Debtors—			
Head Office		£13,500	
Aberdeen		3200	
Edinburgh .		1500	18,200
IV Charges Unexpired—			
Head Office .			110
V Cash—			
In Bank		£4700	
On hand—			
Head Office .	£360		
Aberdeen .	50		
	£410		
Less—Edinburgh .	20	390	5090
			£63,200

Note The following three Profit and Loss Accounts may, if preferred, be set out in columnar fashion.

Profit and Loss Account

Head Office — For Year ended 31st December, 1935

To Purchases	£80,000	By Sales	£100,000
Add—Stock at 1st January, 1935	12,300	,, Discount	1600
	£92,300		
Less—Stock at 31st December, 1935	13,500		
	£78,800		
,, Wages and Salaries	7500		
,, Charges	3200		
,, Depreciation	2400		
,, Balance to Appropriation A/c	9700		
	£101,600		£101,600

Profit and Loss Account

Aberdeen Office — For Year ended 31st December, 1935

To Purchases	£20,000	By Sales	£27,400
Add—Stock at 1st January, 1935	4000	,, Discount	400
	£24,000		
Less—Stock at 31st December, 1935	3200		
	£20,800		
,, Wages and Salaries	3800		
,, Charges	1800		
,, Head Office Expenses	1200		
,, Commission	20		
,, Balance to Appropriation A/c	180		
	£27,800		£27,800

Profit and Loss Account.

Edinburgh Office — For Year ended 31st December, 1935

To Purchases	£10,000	By Sales	13,700
Add—Stock at 1st January, 1935	1300	,, Discount	200
		,, Balance to Appropriation A/c	1340
	£11,300		
Less—Stock at 31st December, 1935	1500		
	£9800		
,, Wages and Salaries	1550		
,, Charges	950		
,, Head Office Expenses	1200		
,, Commission	40		
,, Damage Claim	1700		
	£15,240		£15,240

Profit and Loss Appropriation Account

Date	Particulars			Date	Particulars		
1935 Dec 31.	To Balance at credit at date as per Balance Sheet		£10,320	1935 Jan 1.	By Balance		£8230
					Less—Final Dividends for 1934—		
					Preference Shares	£225	
					Ordinary Shares	6000	6225
							£2005
				Dec 31	,, Head Office Profit and Loss Account	£9700	
					Aberdeen Profit and Loss A/c	180	
						£9880	
					Less—Edinburgh Profit and Loss Account	1340	
						£8540	
					Deduct— Interim Dividends for 1935— Preference Shares	225	8315
			£10,320				£10,320

2 With reference to question 1 the Branch P. & L A/cs are framed solely in the books of the Head Office, the branch managers making no entries in their books for the amount of discount and administration charges credited and debited by the Head Office, nor any entry in regard to their own commissions The provisions necessary to cover stock and accrued wages are duly recorded in the branch books

Show—

(*a*) The Journal entries necessary in the books of the Edinburgh branch to close the books for the year

(*b*) The list of balances open in the books of the branch at the commencement of 1936

Solution to Question 2

(*a*) Journal Entries

1935 Dec 31	Wages and Salaries, Old . .	*Dr*	£100	—
	To Wages and Salaries, New . .		—	£100
	For provision at date			
	Stock, New . . .	*Dr*	£1500	—
	To Head Office . . .		—	£1500
	For value of Stock at date			
	Head Office . . .	*Dr*	£15,500	—
	To Damage Claim .		—	£1700
	,, Charges . . .		—	950
	,, Stock, Old		—	1300
	,, Purchases . .		—	10,000
	,, Wages and Salaries . . .		—	1550
	To close latter Accounts			
	Sales . . .	*Dr*	£13,700	—
	To Head Office . . .		—	£13,700
	To close former Account			

(*b*) BALANCES

Debtors	£1500	—
Stock	1500	—
Salaries and Wages	—	£100
Cash	—	20
Head Office	—	2880
	£3000	£3000

EXERCISES ON CHAPTER XXXII

1 (*From the Institute of Certificated Grocers*)

J W Simpson, a retail grocer, opened a branch on Sept 1, 19 . Goods are invoiced at selling price (which is fixed at cost plus 25%) The following statement was received from the branch in respect of the 3 months ended December 31, 19..

Cash Float from Head Office	£50
Goods received from Head Office	1000
Sales	645
Petty Cash expenditure	15
Remittances to Head Office	630
Stock on hand	346

Show the accounts in Simpson's books to record the above, and prepare the Branch Trading Account

2 (*From the Royal Society of Arts*)

A limited company, whose Head Office is in London, propose to open ten retail shops in provincial towns All goods are to be supplied to the branches from Head Office store.

You are asked to advise as to the basis upon which goods should be charged out to the branches Give reasons for the advice you offer

3 Dickson divides his business into three departments, i e Carpets, Cottons, and Fancy Goods, and arranges his book-keeping accordingly Draft a specimen Purchases Analysis Book, suitable for his business.

4. Sales for week · Cash £110, Credit £90

Purchases £122 Stocks—Monday morning £94, following Saturday morning £60

Annual charges, allocated to this department, Rent and Taxes £162, Wages and Stamps £210, Other Expenses £56, Depreciation £9 What is the estimated *weekly* profit?

5 A grocer desires to compare the results of the past three years' trading What would be the best manner for the Profit and Loss Account to be prepared? Draft a suitable statement, with specimen entries, to show the principle of working

6. Draw out a Weekly Branch Return suitable for a retail shop branch where the takings are banked intact, and the outgoings are paid through a "petty cash float" A few credit sales are permitted, but the position of the Debtors Ledger must be given every week

7 Trial Balance, one year ended 31st January, 1936 (*after* the P. & L A/c has been prepared).

	Dr. Head Office	Cr Head Office	Dr Branch	Cr Branch
Sundry Debtors	£4120		£620	
Buildings	4848			
Motor Vans	600			
Bank	3500			
Cash	68		116	
Petty Cash in hand	20			
Stock at 31st January	3790		970	
Glasgow Branch A/c 31st Jan & H O A/c	4000			£1800
Sundry Creditors		£1900		486
Bills Payable		820		
P & L A/c Balance		830		
Capital 1st February, 1935		17,396		
Furniture & Fittings			280	
Bills Receivable			300	
	£20,469	£20,469	£2286	£2286

On the 30th January, 1936, £300 of goods were dispatched to Glasgow, but not received till February, when the amount was passed through the Branch books and credited to the Head Office Account

Prepare accounts and Balance Sheet at the 31st January, after making the adjustment for goods in transit

8 Trial Balance, one year ended 31st Dec 1935

	Head Office Dr	Head Office Cr	Branch. Dr	Branch. Cr.
Head Office A/c. 31st Dec				£4580
Branch A/c	£4580			
Creditors		£420		600
Sales		3130		3900
Debtors	1100		£2660	
Stock at 1st Jan	2000		1000	
Expenses	650		485	
Wages	400		605	
Bank	1500		1700	
Net Purchases	912		830	
Goods Head Office to Branch		600	600	
Cash paid to Head Office A/c		1200	1200	
Capital		5792		
	£11,142	£11,142	£9080	£9080

Stocks 31st Dec H O £2,121 Branch £892.
Prepare accounts and Balance Sheet.

QUESTIONS

1 What is meant by the term "Percentage Trading and P. & L A/cs"?

2 Describe the tabular or columnar system of book-keeping, and state some of its advantages

3 Describe the system of book-keeping you would recommend for branches where the books are to be kept at the Head Office, and also where the branches are to keep a complete set of books.

CHAPTER XXXIII

DEFERRED PAYMENT—HIRE PURCHASE AND INSTALMENT PLANS

So far the dealings have been assumed to be for ready money, or short period credit, or isolated bill transactions. In many quarters, however, deferred payment plans have become prominent, and the method of dealing with these in the financial books fall to be described.

Two systems are in vogue; one is called *hire purchase,* and the other *instalment payment.* Briefly, with hire purchase systems, the ownership of the goods remains with the retailer until the last instalment is paid. The purchaser is at liberty to return the goods at any time, but usually forfeits the instalments he has already paid, hence the reason for asking a fairly high initial deposit. If the instalments are not paid the right of the retailer is to recover the goods.

In the case of the instalment-payment plan the ownership passes immediately to the buyer, who therefore has a right to retain the goods in all circumstances, and in the event of the instalments being unpaid, the remedy of the seller is to sue for the sum due.

Most of the retail deferred-payments systems are on *hire purchase.* As a rule the business is undertaken by finance companies who supply all the documents and collect the accounts. For this they charge rates of interest varying from $6\frac{1}{2}\%$ to 10% for one year of 12 equal monthly instalments and in larger cases 13% for two years of 24 monthly payments. The actual interest works out at a very high rate per annum but the customer is charged with the whole of it.

Retail firms are very keen to deal in this way with reputable persons, for they receive their money from the finance company so soon as the documents are signed, and they have no trouble in rendering or collecting the account.

The finance company works with an agreement of hire purchase, and a *promissory note,* the former setting out the agreement between the parties, and the promissory note being made out to the retailer. The purchaser is called the hirer, and the seller the owner. The hirer signs the promissory note on the face at the right-hand bottom corner, and it is then endorsed on the back by the owner, to the finance company, who usually insist on the hirer insuring against all reasonable risks. They then collect the instalments as they become due. In the event of the instalments not being paid, they present the bill to be met by the owner as a previous endorser.

The following is a typical example—

Merchandise sold to I A M Purchaser

ELECTRIC APPLIANCES	£	s	d
Value of chattels	159	–	–
Financing Charges	9	2	6
	168	2	–
Initial Payment	19	–	–
Balance of Hire	149	2	–
By 12 Instalments of	12	8	–

Signed by owners and hirer with two witnesses to each

HIRE PURCHASE PROMISSORY NOTE

£149 2 – 1st Sept, 1935

£12 8:6	One month after date		
12 8·6	Two months	do	
12·8:6	Three	do	do
12·8:6	Four	do.	do
12 8:6	Five	do	do
12:8:6	Six	do	do
12 8.6	Seven	do.	do.
12 8.6	Eight	do.	do
12 8:6	Nine	do	do
12 8:6	Ten	do.	do
12 8.6	Eleven	do	do
12:8.6	Twelve	do	do

For value received I promise to pay to the order of

TRADERS' LTD

the sum of ONE HUNDRED AND FORTY NINE POUNDS TWO SHILLINGS STERLING

at the time or times stated in the Schedule of Payments hereon, at the Office of the Hirer's Finance Company, London, with interest on each instalment after its maturity at 6 per cent per annum until payment thereof

STAMP
TWO
SHILLINGS

(Signed) I A M Purchaser

Should the retailer decide to purchase any article on this system (a motor van, for example) only the value of the van should be capitalized and the proportion representing interest should be written off to the P. & L A/c, thus—

Motor Van purchased on H P system
Value £200. 12 monthly instalments totalling £213

The sum of £200 would be debited to the Motor Van Account in the Real Ledger and the £13 to an Interest on H. P. Account in the Nominal Ledger, the latter being written off at balancing time to the P. & L. A/c.

Where the business is done on the instalment-payment system, it is usual to discard the agreement and to draw out a series of ordinary bills of exchange.

Retailers who do a large business in hire-purchase accounts frequently have agreements of their own, upon which they charge the full rate of interest to the customers, but privately discount these in batches with the finance companies at a lower rate,

EXERCISES ON CHAPTER XXXIII

1 Explain the difference between hire-purchase and instalment-purchase systems Which type is most favoured amongst retailers?

A, a shopkeeper sells electrical appliances valued at £82, and receives an initial payment with order of £12 The balance is to be paid on hire-purchase terms over 12 months at 6½% Show how much each instalment would be, and draw out a suitable promissory note, incorporating penal interest in case of delay in payment at the rate of 6 per cent per annum

2 A trader purchases a motor van on the hire purchase system for £128 in settlement of which he pays £28 down, and the balance in twelve monthly instalments, including interest at 6½% Show the entries in the books

What different entries would have been necessary, if he traded in his old van for £28, although this van in the books was valued at £40?

3 (*From the National Committee (Scotland) for Commercial Certificates* 1935)

The Fresh Trading Company carries on business through several shops (branches) At the close of each financial year the shop managers send to Head Office a Trial Balance taken from their books No Profit & Loss Accounts are recorded in the shop books The books of each shop are so closed at the commencement of the ensuing year. The accounts open therein represent Debtors, Creditors, Head Office, and Cash. The following is the Trial Balance taken from the books of the Hope Street branch at 31st March, 1935

Debit Balances Debtors £380, Purchases £1540, Returns £30, Rent £50, Charges £120, Cash £10, Wages £520, Shop Fittings (new) £40

Credit Balances · Discount £20, Sales £2370, Creditors £80, Head Office £220

The shop stock at 1st April, 1934, recorded in the books of the Head Office, amounts to £270, and the shop manager's inventory of stock at 31st March, 1935, brings out a value of £340 The shop manager is entitled to be credited with commission at the rate of 10 per cent of the annual profits, the term "Net Annual Profits" meaning the profits before charging such commission

Give—

1 Journal entries necessary to close the Shop Books.

2 Journal entries necessary to record the results of the branch in the books of the Head Office

4 (*From the National Committee (Scotland)* 1935)

The financial year of A Galt ends each 31st December, and the following is an abstract of the cash intromissions for the year 1934—

Receipts			*Payments*		
1934			1934		
Jan 1.	Balance	£20	Dec 31	Wages	£2760
Dec 31.	Sundry Debtors	8920		Charges	1370
	Loan	500		Personal Drawings	300
				Sundry Creditors	4890
				Bank (excess of Lodgements)	80
				Balance	40
		£9440			£9440

In addition you have ascertained that at 1st January, 1934, the accounts owing by Galt amounted to £1200, while he had accounts due to him at that date amounting to £1500, stock valued at £400, and cash in bank of £280

You are informed that at 31st December, 1934, his creditors, apart from the loan contracted during the year, amounted to £1800, and the sundry debtors and stock were £2280 and £870 respectively.

Allowing 5 per cent interest on the commencing capital, prepare Balance Sheet as at 31st December, 1934, with relative Trading and Profit and Loss Accounts for the year ended that date

5 (*From the National Committee (Scotland)* 1935)

A. Jones sells goods value £1000 to A Corbett, who gives in exchange a cheque for £300 and his acceptance for £700, which is discounted at the bank at a cost of £20 On the due date the bill is dishonoured but it is renewed, including interest of £10 This bill is held till maturity, and Corbett again fails to meet his obligation and ultimately becomes bankrupt, his trustee paying a first and final dividend of 10s in the pound Ignoring noting charges, show by Journal entries with relative narratives the foregoing transactions in the books of both parties.

(*Note*. Keep Journals separate and show clearly to which the entries relate)

QUESTIONS

1. Explain the hire-purchase system of selling through the means of finance companies Who pays the interest?

2 Is an agreement necessary when sales are made on the instalment-payment plan?

3. What alternative system is common in firms doing a large business on hire-purchase, where they desire to use agreements of their own, but wish to use the finance company to provide the necessary funds?

CHAPTER XXXIV

INCOME TAX RETURNS

SPEAKING generally, all persons resident in the United Kingdom are liable to be assessed for income tax and must furnish returns of their income, annually, in a stated way. For convenience in collecting, the authorities charge all partnership firms, which recoup themselves by distributing the tax paid among the partners in due proportions. Limited companies are also assessed and they recover from the shareholders, up to the extent of dividends paid, the balance of tax they pay themselves, e.g.—

Dividend on 1000 shares £1 each fully paid, at the rate of ten per cent

Gross sum due	£100
Less Income Tax at 4/6 in the pound .	22 10s
	£77 10s

The fiscal year runs from the 6th April of one year to the 5th April of the next. Payment of tax is normally on the 1st January of the year of assessment, but those paying tax on business profits are given a concession, so that one-half of the tax need not be paid till the following 1st July.

Provided that the accounts show one whole year's trading, they are accepted, if made up to any date in the preceding fiscal year. Adjustments are made in the beginning and closing years of business.

The previous year's accounts are therefore the basis of assessment, and the same rule applies to salaries, and other emoluments of offices, employments, and pensions. On the other hand tax on dividends, interests, annuities, etc., and weekly wage earners is based on the amounts actually received during the year of assessment. The income of a married woman living with her husband is deemed to be his income for the purposes of the Income Tax Acts.

To avoid disputes as to what is to be considered the income of an individual, elaborate rules have been formed, and the final result is named the *statutory income*; this being divided into two parts, *earned income* and *unearned income*. Partnership income has a valuable privilege in being classed earned income, for limited companies have their assessable profits designated unearned income.

When the statutory income is determined the tax payable is easily computed. First, the *charges* on the total income are deducted. These charges are the ground rents, and interest on loans, for the most part, which a person must pay, and will therefore be the income of some other person. The balance of statutory income is

paid by limited companies at the full standard rate of tax (4s. 6d. in the pound in 1935/36, which is fixed annually according to the needs of the Exchequer). Private persons are given certain abatements in the form of standard reliefs (also variable from time to time). Partnership firms are given the reliefs to which the partners are severally entitled

The tax payable by individuals is made up in the following way—

STATUTORY INCOME, LESS CHARGES—		
	Earned Income	£
	Unearned Income	£
DEDUCT STANDARD RELIEFS—		
Earned Income Allowance	£	
Personal Allowance	£	
Housekeeper	£	
Children	£	
Dependent Relatives	£	
		£
	Taxable Income	£
TAX LIABILITY—		
First £135 @ 1/6 per £	£	
Balance at the full standard rate of tax	£	
INSURANCE RELIEF DEDUCT	£	
Amount of premiums at half the standard rate of tax	£	
Total tax to be paid		£

Naturally the reliefs are very sharply defined. For instance, the Insurance Relief is restricted to the premiums paid for Life Assurance, or for contracts for deferred insurance, in so far as these do not exceed *one-sixth* of the total income. Where the rate of premium exceeds *seven per cent* on the sum assured, however, no allowance will be made in respect of the portion of the premium in excess of seven per cent. The allowance for 1935/36 under policies effected after 22nd June, 1916, is 2/3 in the £, but at only 1/6 in the £ (*a*) where the "taxable income" does not exceed £135, or (*b*) in so far as the amount of the allowable premiums is greater than the excess of the "taxable income" over £135

The following restrictions apply to the other reliefs during the fiscal year 1935/36.

Earned Income Allowance. A deduction of the tax on one-fifth of the net amount of any earned income will be allowed, subject to a maximum of the tax on £300. Small incomes are free to a limit of £125 for all types of income, whether wholly or partly derived from investments. For incomes between £125 and £140 there is an over-riding provision that the tax does not exceed one-fifth of the excess of £125.

A similar *allowance in respect of other income* may be claimed where either the taxpayer, or, in the case of a married man, his wife living with him was on 6 April, 1935, 65 years of age or more, and the total statutory income does not exceed £500

Where the total income exceeds £500, the tax payable on the total income will be reduced, where necessary, so as not to exceed a sum equal to the total of (i) the amount of tax which would have been payable if the total income had been just £500, and (ii) one-half of the amount by which the total income exceeds £500.

A *Personal Allowance* will be made of tax on £100, or, in the case of a married man whose wife is living with him, a personal allowance of tax on £170 may be claimed.

Where the total income includes any earned income of the wife, an additional deduction will be allowed of tax on 4/5ths of the amount of such earned income (subject to a maximum additional deduction of tax on £45).

A deduction of tax on £50 may be claimed by (*a*) a *Widower* who has a female relative of his or of his deceased wife resident with him for the purpose of having the charge and care of any child or adopted child of his in respect of whom the deduction for children is allowed, or in the capacity of a housekeeper, or (*b*) a *Widow* who has a female relative of hers or of her deceased husband resident with her for the purpose.

If the widower or widow proves that he or she has no such female relative who is able and willing to take such charge or act in such capacity, the same deduction may be claimed in respect of some other female person employed for the purpose.

A deduction of tax on £50 may be claimed by an *Unmarried Person* who has living with him and maintains at his own expense either his mother (being a widow or living apart from her husband), or some other female relative, for the purpose of having the charge and care of any brother or sister of his in respect of whom the deduction for children or adopted children is allowed. (A female taxpayer may claim in respect of either her mother or a female relative in the circumstances set out.)

A deduction may be claimed in respect of any *Child*, step-child or adopted child, who is living and under the age of 16 years at any time within the year ending 5 April, 1936, or who, if over that age on 6 April, 1935, is receiving full-time instruction at any university, college, school, or other educational establishment. ("Adopted child" means, for this purpose, a child of whom the individual has the custody and whom he or she maintains.) The deduction allowable is tax on £50 in respect of each child.

No deduction can, however, be allowed in respect of any child or adopted child who is entitled in his or her own right to an

income which, after excluding any income from a scholarship, bursary, or other similar educational endowment, exceeds £50 a year.

A deduction of tax on £25 may be claimed in respect of any person whom the individual maintains at his own expense, and who is (i) a relative of his, or of his wife, and incapacitated by old age or infirmity from maintaining himself, or herself, or (ii) his or his wife's widowed mother, whether incapacitated or not, or (iii) his daughter who is resident with him and upon whose services he is compelled to depend by reason of old age or infirmity. (A female taxpayer may claim in respect of (i) a relative of hers or of her husband, or (ii) her or her husband's widowed mother, or (iii) her daughter, in the circumstances set out.)

No deduction can, however, be allowed under (i) or (ii) if the income of the dependent relative, exclusive of voluntary allowances, exceeds £50 a year.

Where two or more persons jointly maintain a dependent relative as above, the deduction is to be apportioned between them in proportion to the amount or value of their respective contributions.

An allowance will be made of one-third the tax remaining chargeable at the standard rate after the allowances specified have been made—but subject to a maximum of one-third on £135. The effect of this allowance is to reduce the tax on an amount of income not exceeding £135 to one-third standard rate.

Where the £135 of income in question includes income from dividends, bond interest, etc., taxed before receipt, an allowance of tax representing the difference between tax at the full standard rate and at half the standard rate on the amount of such income will be made as far as possible as a set-off against the tax chargeable on other income.

Where the £135 of income in question includes income from property, the allowance due in respect of such income will normally be made in the assessment on the property.

Example

A and B in partnership, sharing equally, have agreed business profits of £1860 less charges £200. A is married with two children under 16 years of age. B is a bachelor and pays an annual premium for life assurance of £100 on a £1000 policy What would be the tax liability of the firm, and how would it be divided between the partners? Policy taken out in 1929

Note The firm will have paid the charges, less tax, and must therefore account for the tax to the Revenue The balance is divisible between the partners. B's premium allowance will be restricted to the 7 per cent limit, viz. £70. As he has more than £70 charged at the full standard rate, the allowance will be at 2/3 in the £.

	Firm's Liability	A's Share	B's Share
Income, less Charges	£1660	£830	£830
Earned Income Relief (one-fifth)	332	166	166
	1328	664	664
Personal Allowances	270	170	100
	1058	494	564
Children's Allowance	100	100	
	£958	£394	£564

	Firm £	s.	d.	A £	s.	d.	B £	s.	d.
Taxation—									
£270 @ 1/6 per £	£20	5	–	£10	2	6	£10	2	6
£688 @ 4/6 per £	154	16	–	58	5	6	96	10	6
£958	£175	1	–	£68	8	–	£106	13	–
Less— Insurance Relief (restricted) £70 @ 2/3	7	17	6				7	17	6
	167	3	6	£68	8	–	£98	15	6
Add— Tax on Charges £200 @ 4/6	45	–	–						
	£212	12	6	£68	8	–	£98	15	6

It will be noticed that the firm pays £45 more than it can charge to the partners, but it recoups itself by deducting this amount of tax when it pays over the charges during the year.

Where the earned income is non-fluctuating in its character, e.g. salaries, pensions, directors' fees, etc., or in the case of unearned income such as dividends, interests, etc , where the gross sum received is easily ascertained, it is not at all difficult to arrive at the total income from these sources Income from land and buildings, however, is arrived at in a different manner. Normally, in England, the Poor Rate valuation of retail premises is taken (in Scotland, the assessed values for rating purposes, less owner's rate) and reduced by specific allowances as under—

Gross Annual Value			£
Less· Statutory allowance for repairs—			
	Under £40	One-quarter	
	£40–£50	£10	
	£50–£100	One-fifth	
	Exceeding £100	£20 for the first hundred pounds, plus one-sixth of overplus	£
Equals the Net Schedule A			

The unearned income of retail premises is assumed to be the net Schedule A figure. An owner-occupier will ordinarily not have any rent charged in his P & L. A/c (although some retailers do enter an assumed figure for comparative purposes), so he is permitted to reduce his profits by the amount of the net Schedule A assessment. As profits are earned income, the effect is to reduce the earned income. *Contra* to this, however, the net Schedule A figure is included with the unearned income of the owner-occupier.

This is not the only alteration necessary to the P. & L A/c. Many grocers, for example, maintain themselves and their families out of the shop without making a payment for the value of goods withdrawn. Others debit the P. & L. A/c with every conceivable charge, many items being of a capital nature, or properly chargeable to the Private Ledger, with the result that in nearly every case the P. & L. A/c requires adjustment before it will be accepted. Undernoted are the official rules, stating the ordinary expenses that may be and may *not* be deducted in computing the profits—

Expenses that may be Deducted in Computing the Profits. These are, broadly speaking, expenses, not being capital expenditure, wholly and exclusively incurred for the purposes of the trade, profession, or vocation. The deductions allowable include—

Sums expended for repairs of premises occupied for the purposes of the trade, etc , or for the supply or repair of implements, utensils, or articles employed

Debts proved to be bad, and doubtful debts to the extent that they are respectively estimated to be bad

Rent of business premises, or alternatively (if the premises are within the United Kingdom) the annual value If part of the premises is used as a residence, only the appropriate proportion of the rent or annual value is allowable. The "annual value" to be taken is the amount of the Schedule A assessment after reduction by the statutory allowance for repairs, except that in the case of mills, factories and similar premises, the amount of the Schedule A assessment before such reduction is allowable

The amount charged to United Kingdom income tax on account of premises situate in the Irish Free State to the extent that they are used for the purposes of the trade.

One-sixth of the annual value of any mills, factories, or similar premises situate outside the United Kingdom and occupied by the owner for the purposes of the trade

So much of any amount expended in replacing obsolete machinery or plant as is equal to the cost of the machinery or plant replaced, after deducting from such cost (*a*) the total amount of any allowances made at any time in respect of such machinery or plant for wear and tear and the additional deduction of one-tenth and (*b*) any sum realized by its sale

Expenses that may NOT be Deducted in Computing the Profits. These include—

Any sums not wholly and exclusively incurred for the purposes of the trade

Any sums paid as salaries to proprietors, or any interest on capital, or any drawings by proprietors

Any expenses of maintenance of the persons assessable, their families, or

establishments, or any sum expended for any other domestic or private purpose

Any annual interest, annuity, or other annual payment, payable out of the profits or gains, or any royalty or other sum paid in respect of the user of a patent (The tax on such interest, patent royalty, or other annual payment should be deducted from the person to whom the payment is made)

Any interest paid on arrears of excess profits duty or munitions exchequer payments

Any sum paid as United Kingdom income tax, and any sum paid as Dominion income tax except in certain circumstances Foreign income tax paid in respect of the profits in the place where they arise may, however, be deducted

Any sums paid as owners' rates

Any sums invested or employed as capital in the trade, etc, or any capital withdrawn therefrom

Any sums expended in improvement of premises, or written off for depreciation of land, buildings, or leases

Wear and tear of machinery or plant, or any premium for life assurance, but allowances may be claimed in respect of these items

Any loss not connected with or arising out of the trade, etc.

Any loss recoverable under an insurance or contract of indemnity.

Example of P. & L. A/c Adjustment

The following example of a P. & L A/c and subsequent adjustment will clarify these rules—

P & L A/c

Dr		*Cr*	
To Gen Expenses	£2400	By Gross Profit	£3470
,, Interest on Capital	50	,, Dividends, net	231
,, Owner's Salary	400		
,, Private Drawings	150		
,, New Fixtures	200		
,, Depreciation	210		
,, Bad Debts Reserve	32		
,, Loss by Fire, but recoverable from Insurance Coy	25		
,, Bank Interest	28		
,, Loan Interest, net	77		
,, Ground Rent, net	8		
,, Net Profit	121		
	£3701		£3701

ADJUSTMENT FOR INCOME TAX PURPOSES

Profit as per Account		£121
Add back disallowed items:		
Interest on Capital	£50	
Owner's Salary	400	
Private Drawings	150	
New Fixtures	200	
Depreciation	210	
Bad Debts Reserve	32	
Loss by Fire	25	
Loan Interest, net	77	
Ground Rent, net	8	
		1152
		£1273
Less Dividends on Investments, net	£231	
,, Net Sch A value of premises (say)	£136	
		367
Adjusted business profits		£906

This figure of £906 would be reduced by a special wear and tear allowance in place of the depreciation, which is added back

It will be noticed that both the interest on the loan and the amount of the ground rent were added back, the reason being that these charges were the net amounts paid (gross amount due, less deduction of tax). The gross amounts will be allowed from the total income as *charges*, but it will have to be remembered that in such a case the tax deducted from the bond-holder and the land-owner will require to be handed to the tax collector.

Dividends were deducted from the net profit because they had suffered tax before receipt.

There is sometimes confusion owing to the methods of collection adopted by the Collectors of Taxes.

First, there is deduction at the source, whereby those paying sums of a repetitive nature, e.g. dividends of limited companies, annual interest (excluding bank interest), royalties, etc., are obliged to deduct tax at the full standard rate when making payment. There are one or two exceptions, the 3½% War Loan, 4% National Savings Bonds, and Savings Bank Interest, all of which are paid in full. Those deducting tax must account for it to the Revenue. For example, any person paying feu-duty and deducting tax, must hand it over, even although ordinarily not liable to pay income tax. It is simply a case of acting as collectors on behalf of the Crown.

Second, those receiving income less tax may reclaim it, should they not be liable to pay tax, and where liable to pay at only half-rate, they may have the overplus set off against the tax they have to bear; e.g. a person whose total income was £90, which was received from taxed investments, would be entitled to reclaim the whole of the tax deducted when the dividends were paid.

The whole matter is one of convenience to the taxing authorities, and the fact of paying tax by deduction has no necessary relationship to the fact of such tax being in fact due by the individual suffering the deduction.

Property ownership is usually charged under Schedule A and the business profits under Schedule D. The reliefs are granted against both schedules, the balance being carried from the one to the other as may be necessary.

EXERCISES ON CHAPTER XXXIV

1 (*From the Institute of Certificated Grocers*)

Messrs. Hartley and Hewat are in partnership sharing profits or losses equally Both are married and Hartley has one child under 16 and Hewat two, both under 16 Hartley supports his widowed mother For the year 1935/36, based on their accounts for the year ended 28th February, 1935, the firm's assessment was agreed at £960.

Prepare partner's accounts

2. (*From the London Association of Certified Accountants*)

Jones receives a salary of £500 per annum, he owns a house which cost £1600, the net Annual Value assessed under Schedule A being £40 He possesses 500 shares of £1 each in Messrs. Blank, Ltd, from which he receives an annual dividend of 10% Jones is a married man His wife has a small private income of £60 per annum in respect of interest at the rate of 6% on a Mortgage of £1000 He has one child under 16 years of age Prepare a statement and show how much income tax Jones should pay for the current year.

3 (*From the London Association of Certified Accountants*)

In the Trading Account of a private trader submitted to you for adjustment for income tax purposes the following items are charged State those you would allow and those which you would add back—

		£			£
a	Rent	60	*g*.	Salary of Proprietor .	500
b	Rates	60	*h*	Salary of proprietor's wife assisting in business . .	100
c.	Life Assurance Premium	100	*i*.	Loss on sale of Investments .	1000
d.	Fire & Burglary Insurance . . .	20	*j*	Stationery & Postages .	200
e	Depreciation . .	40	*k*	Carriage Outwards	150
f	Legal charges for arranging a mortgage . .	10			

4 (*From the Royal Society of Arts*)

John Smith, who is employed by a City Company, and is assessed under Schedule "E," receives a salary of £600 per annum His only other income is derived from £4000 invested in Eldorado Railway Company 5% Debentures, the interest upon which is paid less tax

Smith is married and has one child, who is eight years old. His wife has no income

Prepare a statement showing Smith's liability for income tax, and show the amount of tax payable.

5 (*From the London Association of Certified Accountants*)

The profits of a trader for the year ended 31st December, last, are £600 The following items appear in the accounts before the balance of the profit is arrived at—

	£
Salary of proprietor	300
Wages paid to his wife for assistance in the business	80
Interest paid on loan (net)	28
Wages to son	160
Depreciation of plant	50
Rent of premises used by proprietor for business and residential purposes	90
Rents received from private property	150
Repairs to private property	40
Discount received	50
Interest received on 5% War Loan 1929–47	25

6 (*Complete final examination paper of the Institute of Certificated Grocers* 1935)

(50 marks for No 5, 25 each for others)
Attempt question 5 and two others

(A) (25) marks) Explain the meaning of the following—

Deposit Account, Contingent Liability, Limited Partner, Penal Interest, Documentary Bill, Participating Preference Shares

(B) (25) marks) From the following particulars prepare the General Ledger Adjustment Account in the Sales Ledger as at 30th September, 1934 and bring down the balance—

	£		£
Bad Debts	150	Sales	4800
Returns	390	Discounts	60
Dishonoured Bills	50	Cash	3000
Bills Receivable	1480	Sundry Debtors, 1st Sept, 1934	620

Transfer from Contra Accounts in Bought Ledger £220

(C) A owes B £500 for Goods On 1st January, 1934, B draws a Bill on A for that amount at 3 months A accepts the same On the same day B discounts the Bill at his Bankers at 6% On maturity, as A is unable to meet the Bill in full, B gives A a cheque for £250 to enable him to do so and draws on A for the balance at 4 months plus Interest at 6% and stamp The Bill is duly met Show the transactions as they will be recorded in the books of both B and A.

(D) White and Snow are in partnership sharing Profits and Losses equally. The Profit and Loss Account for the year ended 31st December, 1933, is as follows—

	£		£
Rent and Rates	340	Gross Profit	3950
Income Tax, Schedule A	70	Interest on Investments taxed at source (gross)	90
Fire Insurance	35		
Subscriptions to Charities	15		
Bad Debts	80		
Bad Debts Reserve	150		
Net Profit	3350		
	£4040		£4040

White is married and has three children under 16 years of age Snow is a bachelor, his life is insured for £1000 at an annual premium of £110 He owns the house in which he lives, which is assessed at £153 p ann He has a private income of 6% on £5000 Railway Debentures, taxed at source.

Show the amount which each partner will be called upon to pay for Income Tax for 1934–35 Standard rate—4s 6d

(E) K Harvey commenced business on January 1, 1934 From the following balances taken from his books on December 31, 1934, prepare Trial Balance, Trading Account and Profit and Loss Account for the year ended that date and Balance Sheet as on that date

		£	s	d
Capital Account	Debit	68	11	–
Purchases		3041	1	7
Bank Charges		4	1	4
Insurance		3	12	6
Sundry Expenses		45	–	9
Telephone		12	3	8
Rent		108	10	–
Sales		3684	5	7
Lighting and Heating		22	7	11
Cash in Hand		19	19	8
Bank Overdraft		39	13	4
Wages		223	5	4
Telephone and Electric Light Deposits		7	–	–
Repairs		10	8	6
Carriage and Cartage		17	17	6
Furniture, Fixtures and Fittings		63	11	–
Drawings		182	–	–
Sundry Debtors		73	8	3
Sundry Creditors for Purchases		159	4	10
Sundry Creditors for Sundry Expenses		19	15	3

Create a Reserve for Bad Debts of 10%
Reserve for Accountant's Fee £5 5s od
Stock as at 31st December, 1934, £236 6s 1d

GLOSSARY OF ADDITIONAL COMMERCIAL TERMS

Abatement—A deduction from a debt or contract

Acceptance—Associated with a bill of exchange, signifying the assent of the drawee to the order of the drawer The word "Accepted" need not be written, but the promise to pay must be of money

Account Current—In banking, an account from which withdrawals may be made without notice In consignment trading, the copy of the detailed account transmitted at intervals to the supplier of the goods In commerce, an account bearing interest on the outstanding balances

Account rendered—The total balance due, and for which detailed invoices have already been given

Ad valorem—According to value

Administration, Letters of—The means by which a person takes charge of the estate of one dying intestate

Advice—A letter giving information of any commercial transaction

Affidavit—A written declaration on oath before a person authorized to administer oaths

Agenda—The ritual of business to be transacted at a meeting

Agent—A person delegated to act for another The agent's acts bind the principal

Agio—A premium given for real values over nominal values, e g gold over paper currency, in certain countries

Agreement—A contract or bargain entered into There are three kinds.—viz. "Oral," "Under seal," and "Under Hand" The two latter are in writing

Allowance—A customary deduction in weights and measures, e g tare, ullage, etc

Amortisation—The extinguishing of a debt by gradual means, e g Sinking Funds and Redeemable Debentures

Annuity—A sum paid or received each year

Arbitration—A mode of settling disputes outwith the law, by reference to a neutral party

Arbitration of Exchange—A comparison made between the exchanges of different countries, for the purpose of negotiating bills of exchange to the best advantage

Arrears—Overdue sums

Assets, Liquid—Assets which may be readily exchanged for cash, e g Book Debts, Bills, Investments which may easily be sold, etc

Authorized Securities—The securities in which a Trustee is allowed by law to invest sums of money

Average—A shipping term denoting a contribution made for losses at sea

A vista—At sight

Award—An arbitrator's decision.

Bearer securities—Securities the ownership of which is evidenced by possession. They are transferable by delivery

Bills of Lading—The receipt given by the master of a ship for goods, when they have been put on board

Bill of Sale—A deed by which a right in certain personal property is transferred, usually to give security for a loan

Bond—A sealed document undertaking to pay a certain sum at due times

Bullion—Referred to nowadays as gold or silver in any form

Capital, Reduced—The cancellation of a portion of a company's capital by permission of the Court The company must write "Limited and Reduced" after its name for a period, as a protection to creditors

Capital, Watered—Capital insufficiently represented by assets

Carriage Forward—Indicative that the consignee pays the carriage On the other hand "Carriage Paid" means that the sender pays

Cashier—One whose business it is to receive and pay sums of money

Charter Party—The agreement of hiring of part or whole of a ship for the purpose of consigning goods

Collateral Security—Additional security given for a loan

Composition—A part payment in place of the whole, e g in the case of insolvency it is usual to find a payment of a percentage of the sum due

Compounding—The agreement to accept a composition

Compromise—Settlement by adjustment

Contingent Liability—A debt liable but not certain to occur, e g there is a contingent liability for bills in case of dishonour by the acceptor Contingencies of this kind are usually disclosed in footnotes to the Balance Sheet

Cost, Insurance, and Freight (*C I F*, *C F I*)—The price of the goods inclusive of freight and insurance

Dating Forward—A practice adopted widely in retail circles, of dating invoices forward to a future time, the period of credit dating from the invoice date

Deficiency Account—The statement in the form of an account prepared by a trustee in bankruptcy, showing how the insolvency has come about

Demurrage—A railway and shipping charge for delay in freeing wagons and ships

Dependencies—Probable assets, which cannot properly be valued

Deposit Receipt—The receipt given by a bank for sums of money lent at interest Some banks issue pass-books in place of receipts

Dies Non—No business transacted on this day

Distraint or Distress—The legal means of seizing property for overdue rent, etc

Duties—Government taxes payable on imports or on excisable goods

Embezzlement—The personal appropriation by breach of trust, or turning to their own use, what is committed to their care

Entrepôt—A public place appointed in most foreign countries for the reception of merchandise imported

Equation of payments—A mathematical method of determining an average date upon which a single sum can be paid in lieu of a number at different dates

Establishment Charges—The general running expenses of a concern, which must necessarily be incurred In retail concerns it is usual to include wages of the staff

Factorage—The sum given by a merchant to an agent

Fiduciary Loan—A loan granted without security

Fixed Capital—The sum total of the assets which have been purchased for use and not for resale, e g property, counters, etc

Floating Charge (*Not in Scotland*)—A charge upon assets, which remain in possession of the company until default.

Freight—The goods which a ship carries, and also the money paid for carrying them

Gazette—A paper published by the Government containing, among other things, notices of the dissolutions of partnerships, list of bankruptcies passing through the Courts, etc

Gilt-edged securities—Securities of the highest-class which are converted into cash very easily

Going-concern—A saleable concern which may be transferred without disturbing the workings of the business

Gross Weight—The whole weight of goods, including the packages, and packing

Guinea-pig Directors—A term applied to directors of companies who are interested in their own receipts rather than the business affairs of the company

Holding Out—Applicable where a person pretends to be a partner and the firm receives credit in consequence In such cases he becomes liable as if he was a partner

Hypothecation—An assignment, pledge of property, etc , as security under an agreement

Indent—The form of order from a foreign agent

Indemnity—The security from responsibility against any particular event, which one person receives from another

Insolvent—The term used when a person is unable to pay his debts in full

Inventory—A list or catalogue of goods and property

Interest—A premium paid for the use or loan of money

Jettison—Throwing cargo overboard in time of danger

Judgment Creditor—One who has obtained judgment in an action for debt

Judgment Debtor—One who has been ordered to pay a debt by the Court

Keyage (*Wharfage*)—A toll or tax paid for loading or unloading goods at a quay or wharf

Lease—Usually applied to a "let" of buildings or land for a period of years

Legal Tender—The mediums of exchange which have been authorized, e g gold to any amount, silver up to £2, and copper to one shilling

Loose-Leaf Ledger—These take three forms "visible index," "alphabetical book type," and "card index" They have one feature in common in that finished pages are removed and new ones inserted so that the book is always kept up to date It is generally agreed that this type of ledger has many advantages over the old "bound book style"

Margin—There are many meanings attached to this word In the retail trade it means the difference between the wholesale and retail prices

Mortgage—A transfer of security for money borrowed If it is property that is transferred it is usual for the borrower to retain possession, for the time of the mortgage

Mortgage Debenture—A debenture secured by means of a mortgage over the property of the company.

Negotiable Instrument—A document that can be transferred to another with the same rights as belonged to the original holder, e g a bill of exchange.

Net Weight—The weight of any commodity alone, without the packing

Net Cash—To indicate that there will be no discount at settlement.

Novation—The substitution of a fresh obligation for one existing, as for example in the case of a new partner assuming liability for the debts of the retiring partner

Obligation—A bond containing a penalty clause

Overdraft—The position when there is an excess of withdrawals from the bank current account, over deposits This is charged interest by the banker

Official Receiver—A trustee who has been appointed by the Board of Trade to administer the estate of a bankrupt

Paper Currency—Bank notes and other documents which are used to represent money.

Par—The value of shares, bills, etc , when they sell at exactly the price marked on them, i e their nominal value, without premium or discount

Pari passu—All on the same proportionate footing

Preferential debts—Prior debts to be paid in the case of a bankruptcy before the ordinary creditors; e g local rates and taxes, rent, wages, etc , are partly preferential

Pro-forma Account—A detailed invoice sent before the dispatch of goods in cases where there is no open account and it is not desired to open one. When payment is made the goods are sent on as invoiced.

Proxy—A particular form authorizing a person to vote for another

Quid pro quo—One thing for another

Quorum—The minimum number of persons stated in a company's rules as being necessary to be present before business may be transacted at a meeting

Rebate—An abatement or allowance, usually deferred till a later date than when the goods are supplied

Registration Fee—The fee for registering a transfer made by a company It is usually 2s 6d

Restitution—The right to be paid back money paid wrongfully or by mistake

Retail—A term originally meaning the dealing in commodities in small quantities, but now covering all trade where the business sells direct to the public

Rig the market—Buying up in sufficient quantities to create an artificial scarcity, so as to force up prices

Sale of Goods Act, 1893—Contract sales of £10 or over, to be enforceable, must be in writing, or be part paid, or the buyer must have accepted delivery of some portion of the goods

Sans recours—Without recourse to me A bill term.

Scrip—Temporary receipts given and later exchanged for proper share certificates

Seal—All limited companies must have a seal which is used for affixing to certain documents

Spot—Goods ready and waiting for delivery A "forward" price on the other hand is for goods at some future specified time and place

Stale cheque—One out of date, through length of time. Usual time allowed is six months

Sterling—A name given to British money

Surety—A person who becomes bound for another to pay a certain debt, or perform a certain act

Surrender value—The total amount which an insurance company will pay on surrendering all claims upon a policy

Suspense Account—A *pro tem* account, and also one into which errors in balancing are placed

Table A—A model set of Articles for a limited company, attached to the Companies Act, which may be adopted by those who have none of their own

Tare—The weight of packing enclosing goods

Tariff—An account of the rates of duties imposed on merchandise

Trade mark—A distinctive device adopted by certain persons to distinguish their goods

Usance—The usual term of a foreign bill of exchange

Underwriting Capital—The name given to express a case where an underwriter, for a consideration, takes up shares which are not applied for by the public It is a form of insurance

Vendors' Shares—In purchasing a business, it is common to grant a number of shares to the vendors in part or full payment of the purchase price

Voucher—A document proving that some payment has been made.

Warehouse—A house where goods are deposited or kept

Wholesale—The intermediary between manufacturer and retailer There is a growing disposition in many trades for the retailer to deal direct with the manufacturer, and so eliminate the wholesaler

Window dressing—A term applied to cases suspect of producing a Balance Sheet more favourable than is usually the case by showing a good liquid position.

Without prejudice—An offer without waiving any rights should the offer not be accepted.

Working Capital—The trading capital of a concern, as distinct from the paid-up capital.

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